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Politics this week

Feb 12th 2004
From The Economist print edition

Double tragedy

AFP

Big suicide-bombs on consecutive days killed around 100 **Iraqis**. The first, in Iskandariyah, a town 25 miles (40km) south of Baghdad, killed at least 53 people queuing for work at a police station, while the second, in Baghdad, killed some 47 people applying to join the new army. There was speculation that the bombers may have been outsiders, perhaps connected to al-Qaeda.

See article: Bombs and ballots

Meanwhile a team led by the UN secretary-general's special envoy to Iraq, **Lakhdar Brahimi**, was assessing what kind of elections might be held in time to produce a provisional government by July 1st, when the Americans want to hand over power to Iraqis.

See article: Security in Iraq

America restored its diplomatic presence in **Libya** for the first time in over two decades. Britain's foreign secretary, Jack Straw, after a meeting in London with Libya's foreign minister, Mohammed Abderrahman Chalgam, signalled that Tony Blair and Muammar Qaddafi might soon meet as well.

Israeli troops killed at least 15 **Palestinians** in the Gaza Strip in raids said by the Israelis to be aimed at hitting militants who have been attacking Jewish settlements.

After threatening to boycott the general election due on February 20th, the main reformist party in **Iran** said that it would compete after all, even though one-third of all candidates, including many reformists, have been disqualified from standing by the conservative Guardian Council.

See article: Dealing with Iran

Prince Charles, heir to the British throne, became the first royal Briton to visit **Iran** since the fall of the shah in the revolution of 1979.

Sudan's government said it had crushed the rebel forces fighting against it in the western region of Darfur, from which 800,000 people have fled in recent months. Rebels denied the claim.

Kerry's winning streak

John Kerry won five more Democratic primary elections including two southern states, Tennessee and Virginia. Wesley Clark, a former NATO commander who made a late entry into the field, withdrew from the race. John Edwards and Howard Dean are hanging on.

See article: The rise and rise of John Kerry

George Bush said on TV that he “expected to find weapons” when he ordered the invasion of **Iraq**, a decision based on the “best intelligence possible”. Later, the White House released 13 pages of military records to refute claims that Mr Bush had shirked his duty as a member of the National Guard during the Vietnam war.

See article: Warrior king?

Secular argument

France's National Assembly overwhelmingly approved a ban on the wearing of Muslim headscarves and other supposedly ostentatious religious symbols. The ban, supported by government and opposition parties, will become law later this year.

See article: Ban wins

Serbia's quarrelsome political parties appeared to abandon efforts to form a coalition government. Another election is likely; hardline nationalists may do better than they did last December. The Serbs also denied claims by Carla Del Ponte, the Yugoslav war-crimes prosecutor, that Radovan Karadzic, the Bosnian Serb leader wanted in The Hague, was hiding in Belgrade.

The European Commission presented its proposals for the **European Union** budget over the seven year period from 2006. Against the wishes of the biggest contributors, which wanted to freeze spending, the commission suggested an increase of some 30%, mostly to pay for the new central European countries joining in May.

Germany's governing Social Democrats remained glum despite the unexpected resignation as party chairman of Chancellor Gerhard Schröder. Although the next federal elections are not due until 2006, the party faces the prospect of a string of defeats in local elections this year and next.

See article: Gerhard Schröder resigns

A **Russian** presidential candidate who had gone missing, Ivan Rybkin, turned up unexpectedly in Kiev. He claimed that he had gone for a break, switched off his mobile phone and seen neither television nor newspapers—all without telling either his campaign manager or even his wife.

See article: Conspiracy theories in Moscow

Gang warfare

AP

Around 40 people were killed as violence spread in **Haiti**. Rebel gangs seized control of half a dozen towns, but police and gangs loyal to President Jean-Bertrand Aristide beat them back from three others. An American official said that Mr Aristide might have to go.

See article: Haiti on the brink of civil war

Colombia's president, Álvaro Uribe, called for Europe to back his democratic security policy in a speech at the European Parliament. Some MEPs staged a demonstration, calling for an aid cut-off.

See article: Colombia, the EU and human rights

Two judges in America ordered restrictions on the sale of ten properties belonging to **Argentina's** government in actions brought by its creditors. Facing pressure from the IMF, the government appointed three investment banks to help manage its debt restructuring.

In **Venezuela**, the government of Hugo Chávez devalued the bolívar, by 16.7%, to 1,920 to the dollar; the free market rate is more than 3,000 to the dollar. The devaluation will boost the local currency value of the government's oil income.

Canada's auditor-general criticised the government of Jean Chrétien, the former prime minister, for the “blatant misuse” of public money over a C$250m ($190m) publicity campaign to promote federalism in Quebec between 1997 and 2003.

See article: The difficulty of reforming Quebec

Going hungry

The UN World Food Programme said it faces a shortage of food for its distribution programme in **North Korea** because of a lack of funds.

Sri Lanka's president, Chandrika Kumaratunga, dissolved parliament, called for early elections on April 2nd and later sacked 39 government ministers. The move is the latest ploy in a power struggle with the prime minister, Ranil Wickremesinghe.

See article: Sri Lanka's political crisis

Indonesia's Supreme Court overturned a corruption conviction against Akbar Tandjung, the parliamentary speaker and Golkar presidential candidate. In **Malaysia**, where Abdullah Badawi, the prime minister, has vowed to be tough on corruption, the land minister and a former steel magnate were charged with graft and fraud.

George Bush called for tougher curbs on **nuclear proliferation** after the discovery that Pakistan's top nuclear scientist had leaked nuclear technology to Iran, Libya and North Korea. Mr Bush suggested a ban on supplying nuclear-fuel technology to any country that could not already make the stuff, even if they had signed the Nuclear Non-Proliferation Treaty.

See article: Pakistan's nuclear damage-limitation

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Business this week

Feb 12th 2004
From The Economist print edition

Disney and Comcast

Comcast made a bold attempt to join the top rank of the world's media giants with a surprise hostile bid for **Walt Disney**. America's leading cable-TV company made public an offer worth initially some $66 billion for Disney's vast entertainment assets after a private approach was rebuffed by Michael Eisner, Disney's embattled chief executive.

See article: Hunting Disney

Viacom announced a loss of $385m in the fourth quarter after charges of $1.3 billion at its Blockbuster video-rental business. The American entertainment giant said that it would spin off its 81% stake in the troubled video business.

News Corp said that profits in the latest quarter were up by 51% compared with a year ago—to $361m. The media group said that handy performances at its cable-television and newspaper divisions offset a tougher year for its film-production unit.

PeopleSoft option

PeopleSoft rejected a sweetened takeover offer of $9.4 billion from Oracle. PeopleSoft said the improved bid from the rival American software firm was inadequate and that it would meet substantial opposition from America's antitrust regulators.

Juniper Networks stepped up its efforts to compete with **Cisco Systems**. The internet-equipment firm agreed to pay some $3.7 billion in shares for NetScreen Technologies, an internet-security firm, to expand its range in an area much in demand as the threat of cyber attacks on businesses grows.

Microsoft warned users of its Windows operating system that a security flaw could allow hackers to obtain access to their e-mails or other sensitive data. Security experts claimed that Microsoft knew of the "critical" flaw months ago; the software giant released the latest in a long series of patches to rectify the fault.

Nokia said that it would buy Psion's 31% stake in Symbian, a hand-held software consortium of top mobile-phone makers, and so raise its own holding to 63%. The Finnish firm will pay some £136m ($254m) to put it firmly in charge and thus better able to steer software development as it competes against the mighty Microsoft.

Paper chase

Richard Desmond, a British porn and newspaper tycoon, offered some £500m ($934m) for the *Daily Telegraph* and *Sunday Telegraph* newspapers. However, the secretive Barclay brothers have already agreed to buy the papers through the acquisition of Hollinger Incorporated, which controls Hollinger International. Lawyers rubbed their hands with glee.

The European Commission and America's Justice Department gave the go-ahead for a merger between **Air France** and **KLM**. The new airline will become the world's largest in terms of revenue.

Scientists from South Korea announced the creation of 30 **cloned human embryos**. These were grown

to a much further stage than previous attempts. They were not intended to produce a baby, but stem cells to help fight disease.

See article: Human cloning

Italian investigators probing the **Parmalat** scandal reportedly placed two Italian and five foreign banks under scrutiny for suspected market rigging. The banks will face questions about how much they knew of the dairy firm's parlous accounts when helping it to obtain financing.

Capping the well

OPEC made a surprise decision to cut output by 10% by lowering quotas and restraining quota-busting even though oil is considerably more expensive than the cartel's target of $22-28 a barrel. Fortunately for consumers, OPEC members may well overproduce as usual.

See article: OPEC's surprise cuts

Finance ministers of the **G7 countries** meeting in Boca Raton, Florida, expressed concern over “excess volatility and disorderly movements” of exchange rates. The statement was an uneasy compromise between countries with opposing positions, and the dollar slid against the euro and yen anyway.

See article: Currencies

America and Australia signed a **trade agreement** that scraps most of the tariffs on trade in manufactured goods between the two countries. But the agreement did little to lift those on farm products. Australian farmers complained that America had got the better of the deal.

See article: Trade

Eurex, a big European futures exchange, began competing directly with the Chicago Board of Trade in Treasury futures. It is the first foreign exchange to challenge the Americans on home soil.

See article: Futures exchanges

Growing again

The economies of **France** and **Germany** recovered slightly in the fourth quarter, but with less vigour than expected. France's GDP expanded by 0.5% in the fourth quarter compared with a year ago; Germany's economy grew by a meagre 0.2%.

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Hostile takeovers

Hunting Disney

Feb 12th 2004
From The Economist print edition

Big media gets bigger; big bosses are cut down to size

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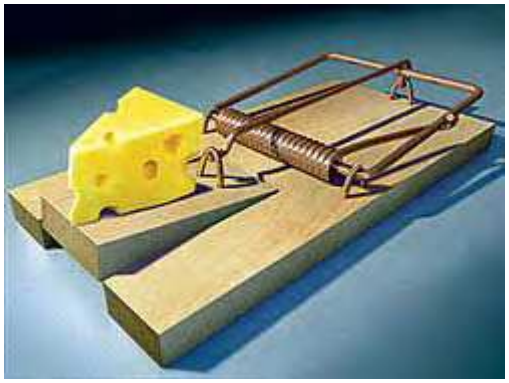
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NOTHING upsets shareholders more these days than the spectacle of the imperial boss, and no one conducts himself with quite such regal pomp as Michael Eisner, the chief executive of Walt Disney. Yet those who conclude that hugely-inflated “fat-cat” salaries, obsequious boards and docile shareholders must be endured forever as unfortunate by-products of capitalism have not been paying much attention to the news. Even before this week, Mr Eisner found himself besieged on all sides: from the courts, from former directors (including Walt's nephew, Roy Disney) and even from supposedly sleepy shareholders. With the news on February 11th that America's biggest cable-TV company, Comcast, had launched a hostile bid for Disney valuing it initially at about $66 billion (see article), an all-out hunt for Disney has begun. Whether or not Comcast's bid succeeds, and that is by no means certain, the company is now “in play”. Rival bids can be expected. Mr Eisner's days as its boss look numbered.

First, though, let it be noted that Comcast, the offspring of a consensual mating between a big cable and part of a big telephone company, is itself no model of good governance. When Comcast merged with AT&T's cable business in 2001, its controlling shareholders, the Roberts family (son Brian is now the firm's boss) managed to retain effective control through one-third of its voting shares, even though the family owns a much smaller share of the firm's overall equity. Michael Armstrong, then AT&T's boss, landed himself the chairmanship.

Mood shift

Such incestuous arrangements only underline the importance of the hostile nature of Comcast's bid for Disney this week. As corporate raiders faded into the mythology of the 1980s, the 1990s came to be defined as an era of arranged marriages. Some of these mergers worked; others failed. But one consequence of all of them has been an undesirable entrenchment of America's managerial class. Hostile takeovers disciplined poor managers with the boot. In their absence, pay has soared and a panoply of devices has arisen to protect bosses: poison pills, staggered boards, generous golden handshakes, gentle golden parachutes, and the like. As both Americans and Europeans have learned, from these poor—and even perverse—incentives spring reckless management and fraud.

So if Comcast's bid for Disney heralds, at last, the return of hostile takeovers, that is to be welcomed. This coincides with what looks like a more demanding mood among American regulators, after a decade of quietude. The Securities and Exchange Commission has its own projects to redistribute power between bosses and their boards. State attorneys-general such as Eliot Spitzer, New York's prosecutor, campaign skilfully against excessive pay. Politicians have expressed their displeasure by passing the Sarbanes-Oxley act, which has loaded boards with new obligations. Even in Delaware, with its business-friendly courts, a judge ruled that a shareholder suit could proceed alleging Disney's board members were negligent over a monstrous pay-off that Mr Eisner dished out to his friend, Michael Ovitz, following his abject failure as the company's president. America changes when there is consensus for a change, and that time may now be nigh.

The Comcast-Disney battle also highlights another important, though seemingly contradictory, fact. While

America's corporate bosses need to be held more strictly to account, by a combination of better rules, better governance and more demanding shareholders, the media business in which these two firms operate actually needs the opposite—less, not more, regulation. When the Federal Communications Commission (FCC) announced last June that it would ease modestly the rules governing which sorts of media company can merge with each other, liberal and conservative Americans alike noisily professed their horror at the prospect of Big Media becoming even bigger. Congress has rolled back some of the FCC's new rules, and the courts have put them all on hold.

Opponents of Bigger Media make two main arguments. First, they say, the concentration of ownership reduces media voices, restricts diversity and thus weakens democracy. Second, the marriage of media content (news, films, TV shows) with media distribution (TV or radio networks, internet services and the like) further increases the power of media barons over viewers, readers and listeners, as the media giants use their sales power to batter their way into living rooms. Comcast's proposed merger with Disney falls mainly into this second category.

Never mind that there is little systematic evidence to support the crude equation of media baron with a single political “view”, and that the internet, with its anarchic bloggers and wealth of information, renders all efforts to control minds—at least in America—somewhat moot. Big Media—like Big Telecoms, Big Cable and Big Satellite, not to mention Big Music and Big Film—is not overweening and almighty, but threatened and vulnerable. The obstacle to dominance in any of these industries is the onward march of digital technology which, as it combines with the spread of broadband internet connections, is undermining most firms' business models. Already, cable companies carry data and telephone calls; telephone carriers transport television, films and music. For the couch potato, the range of choice is growing, not shrinking. So from a public-policy point of view, there is little to fear from a Comcast takeover of Disney, or most other big media mergers that may follow it.

Conventionally wrong

Whether a Comcast-Disney merger is a good idea for shareholders, however, is another matter entirely. Comcast may be able to unlock value from Disney in the short term because Mr Eisner has not, in recent years, managed his company well. But longer term, with digitisation rapidly increasing both the number of suppliers of entertainment content and the distribution channels for it, it is at least worth questioning the industry's current conventional wisdom that combining content and distribution in one company makes sense.

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Japan

Flying again

Feb 12th 2004
From The Economist print edition

This time, the economic recovery looks sustainable

THERE have been so many aborted take-offs that Japan's latest economic recovery is bound to be greeted with scepticism. There has also been so little fundamental reform in most of the things radicals have been worried about—banks, life insurance firms, privatisation, and much more—that to many it will seem impossible to accept that things can really be looking brighter. Yet they are. For the first time in a decade, Japan is enjoying an upswing that could actually last.

Figures for real GDP growth in the fourth quarter of 2003, due out next week, could well show an annualised growth rate of as much as 4%, making the seventh successive quarter of positive growth. Even nominal GDP has stopped falling, as deflation has eased. Alongside that good news, there is less of the bad sort: bankruptcies in 2003 were more than 14% down on 2002, both in terms of the numbers of firms and of their total liabilities; and the burden that bad loans impose on banks is gradually diminishing.

How can this miracle have happened? Part of the reason is a benign mixture of cycle and happenstance: economic activity tends to revive naturally after a few years of stagnation, once companies invest a bit more and rebuild their stocks; and China's economic boom has helped by sucking in huge quantities of Japanese-made steel, manufactures and capital goods. Another big explanation, though, lies in corporate restructuring, mainly among larger Japanese firms. They have cut costs and repaid trillions of yen worth of debt, with the result that these big firms' profits are rising faster even than those of their American rivals (see article). The final reason, and the best case for optimism that this time the recovery will last, is that the Bank of Japan's monetary policy has now become steadily and credibly expansionary. Although the change towards such an expansionary stance has been claimed to be happening for several years, it has become consistent and believable only since Toshihiko Fukui took over as the central bank's governor 11 months ago (see article).

Many things could come along to make this optimism look misplaced. China's economy could overheat and then collapse, hurting Japanese exports. The yen could climb against the dollar and other currencies, also hurting exports as well as adding to Japan's problem of falling domestic prices (ie, deflation). Stronger economic growth or even investors' overblown fears that monetary expansion might stoke up too much future inflation could cause a crisis in the government-bond market, which would ravage banks that hold lots of bonds and would raise the government's borrowing costs. With general government debt equivalent to 160% of GDP, the public finances remain arguably the darkest cloud hanging over Japan's economy. In 1997 a previous government was so worried about its then-much-smaller debts that it raised consumption tax, succeeding only in snuffing out that period's economic recovery prematurely.

Those are fair worries, all of them, and doubtless others could be added to the list. Japan's economy remains fragile, its financial system especially so. Resources are still misallocated, so-called “zombie” companies are being kept alive by banks and harming the prospects of other, stronger firms, and regulatory barriers still inhibit entrepreneurship. Much needs to change, in other words. But the good years of the 1980s took place even though many things were already wrong; similarly, the bad years can come to an end even when not everything—or even most things—have been put right.

Winds of change

If monetary policy continues to be expansionary, and if the current government does not repeat the mistake of raising taxes, there is a good chance that recovery can be sustained. The much bigger question, though, is whether it can be strong enough to raise Japanese living standards once more and to enable the country to overcome the huge problems that confront it: its gigantic public debts and the costs imposed by the ageing of its population.

To overcome those burdens, Japan needs to achieve strong, steady economic growth over many years, not just one or two. And to achieve that, it will need to implement the structural reforms that radicals have been calling for, generally in vain, over the past decade: more privatisation and competition, sounder banks, more deregulation. Quietly, Japanese society has been changing in recent years, with younger people more eager to start companies and to try new ventures. But that change has been mild thanks to a depressed economy and to strong resistance to reform among politicians, bureaucrats and many old-established companies. A new vigour is waiting to be unleashed. The danger is that in the warmth of a new sunrise, reforms will feel less necessary.

That danger is real. But there are reasons to be optimistic even there. The general election last November left the existing coalition government in power, but it revealed a strong desire for reform. The main opposition party became united at last, and now looks a viable alternative government for the first time in years. Fear of that ought to enable the prime minister, Junichiro Koizumi, to push through changes in the social-security system and to prepare for the privatisation of the powerful postal savings bank, despite stiff resistance inside his own party. For if reforms do not look like proceeding, the opposition could strengthen its hold over the Upper House of the Diet in elections this summer. That could even tempt part of the governing coalition to defect, especially if things go badly for Mr Koizumi's brave foreign-policy adventure—the dispatch, now under way, of Japanese soldiers to Iraq.

After a decade during which economic stagnation, bankruptcies, bad debts and entrenched political interests produced a vicious circle, Japan now appears to be entering a virtuous one. If it continues, the revival of the world's second biggest economy will be good for the world, both by removing a horrible risk of collapse and by beginning to add to global demand. But most of all it will be good for the Japanese people, for they have suffered for far too long from slow growth, vested interests and incompetent public policy.

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Immigration

The tragedy of Morecambe Bay

Feb 12th 2004
From The Economist print edition

It is British rules, not evil middlemen, that force poor foreigners into working illegally

Reuters

THE popular press is not normally sympathetic to poor people coming to better themselves in Britain. It tends to characterise them as “bogus asylum-seekers” or (as recently in the case of eastern European Roma who might have the temerity to take advantage of the expansion of the European Union in May and turn up in Britain) “leeches”. When they are dead, however, it is quite happy to take their part. Thus the 19 Chinese (presumed to be illegal) workers who drowned while picking cockles on a cold Lancashire beach on February 5th have garnered much attention and sympathy in the newspapers. They are seen as victims of globalisation, sucked out of impoverished Chinese villages by market forces and washed up dead in Morecambe Bay.

Blame the middleman

Who's at fault? Of that there is no doubt among commentators, politicians and the police: Chinese “snakeheads” running the smuggling gangs that bring illegal Chinese immigrants into Britain, and British “gangmasters” who run the groups of casual (and sometimes illegal) labourers that keep the fringes of British farming afloat. These intermediaries are the guilty men. Investigations are under way; and there will, the government suggests, be regulation.

Certainly, these people seem to have had a hand in the tragedy. The dead Chinese, about whom very little is still known, appear to have been brought from coastal villages in Fujian into Britain by people-smugglers, who are said to charge around £20,000 ($37,000) per person. Their passengers often pay in arrears, out of their earnings. That could explain why—if reports are true—the workers were being paid a pittance for their labour. Some of them, it seems, were asylum-seekers, who are not allowed to work while their applications are being processed. That could explain the story that a number of them tried to hide from the helicopters and lifeboats that were trying to save them.

Yet the middlemen are not the fundamental cause of the tragedy. The Chinese cockle-pickers were, in the end, victims of the British determination to keep people out of their labour market. The reason why poor people from developing countries pay huge sums to get to Britain is that laws prevent them from getting in through the normal channels. If they could just buy a plane ticket, they would; and then they wouldn't end up in hock to “snakeheads”, working for slave-rates to pay off those debts. Asylum-seekers work illegally because they cannot work legally. By refusing to allow them to work, the government pushes them either into dependency on benefits or into an unregulated labour market in which exploitative employers fail to look after their workers' safety and end up getting them drowned.

There's not a great deal to be done about this. While people in the rich world want to keep out people from the poor world, such rules, and their unpleasant consequences, will persist. But there are ways of mitigating their effects. The government could, for instance, issue more short-term work permits. That would allow poor foreign workers to come to Britain for limited periods of time to do the jobs that locals are reluctant to do, while avoiding mortgaging their lives to people-smugglers. And asylum-seekers should not be forced to live off taxpayers. They should be allowed to work. Then nobody could pillory them as leeches.

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Iran

Don't be too nice

Feb 12th 2004
From The Economist print edition

Despite hope of an opening to the West, Iran may go from bad to worse

AP

TWENTY-FIVE years after the revolution that saw Ayatollah Khomeini depose the shah amid scenes of mass euphoria, Iran is in a dismal mess—economic, diplomatic and political—and there is no obvious way out, short of the clerics stepping down and handing power to the people in a genuinely free and fair election.

That looks increasingly unlikely, at any rate in the short run. The parliamentary poll due on February 20th is more likely to be a farce, with one-third of the original candidates, virtually all of them reformers, banned from standing by the conservative Guardian Council. Apathy seems to be prevailing over anger. Reformist Iranians fear that turnout could be as low as 15%. If they are right, conservatives may dominate the new parliament; the reform-minded but increasingly weak president, Muhammad Khatami, is expected to relinquish his job next year, if not sooner. Economic and social change may well grind to a halt. Iranians have lost faith both in their rulers and in those who they once hoped would replace them.

A wretched anniversary

In any event, the bearded clergy who still really run the show cannot claim that their reign, a quarter of a century long, has done their people much good. Though Iran still has 10% of the world's known oil reserves and more gas than any other country bar Russia, its GDP per head was 30% higher under the shah. Central planning and general mismanagement by an interfering government have dulled many Iranians' natural zest for commerce and enterprise. Unemployment is rising relentlessly, at a time when two out of three Iranians are under 30.

But even in those areas where the clergy have been most zealous their policies have failed. Two of the ideological touchstones of their regime—the enforced wearing of the veil by women and the remorseless demonisation of the United States as the “Great Satan”—are increasingly resented, especially in big towns. Bans on alcohol, on watching satellite television and on the mixing of sexes in public are an ever-more-annoying infringement of personal liberty but are also increasingly ignored. The stoning to death of adulteresses is still enshrined as law—but there is a moratorium against putting it into practice.

Most plainly, the notion that democracy and theocracy could somehow co-exist has been shown to be false. Dozens of independent-minded, reform-friendly newspapers have been closed down. Political campaigners are still arrested if they step too far out of the clerics' line. Shocking events, such as the death in Iranian custody last year of a female Canadian-Iranian journalist after she was beaten up, continue to remind the world how dissidents can be hounded and tortured. But whenever Mr Khatami and the supposedly reforming majority in parliament have initiated legislation designed to create a more genuine pluralism—for instance, by reducing the powers of the judges or of the ayatollahs themselves—they have invariably been stymied. Next week's poll puts the limits of Iran's highly qualified freedom into stark relief.

This is all the more telling at a time when the Iranians' Shia co-religionists in neighbouring Iraq are likely to emerge, by democratic means, as that embattled country's leading legislators. Yet Iraq's ayatollahs have, so far, been saying that they will not be demanding the same anti-democratic veto powers for the clergy as their Iranian brethren have doggedly insisted on keeping.

There is not much that outsiders can do. It would be a mistake for western countries to bolster the opposition, except with moral support. The taint of foreign help is still a risky handicap for any group seeking to get rid of the present order. Outraged Iranians may yet take to the streets and force the clergy to cede more power, though there are depressingly few signs of this happening any time soon.

Keep on squeezing them

But the regime is rattled, in particular by the fact that its country sits between two neighbours, Afghanistan and Iraq, that have been clobbered by the Great Satan for sins that Iran itself has been guilty of. Iran is still acutely conscious of its inclusion by President George Bush in his “axis of evil” in 2002. Yet it knows it still has a way to go before it can convince the Americans, as well as Europeans, that it deserves to be fully embraced as a benign interlocutor.

Iran, for instance, still has some al-Qaeda suspects in its custody: it should hand them over to their countries of origin. Though it has confessed that it failed to report all its nuclear activities to the International Atomic Energy Agency, it has yet to fulfil its latest obligations under its new deal with the world's nuclear watchdog. The agency has noted the contrast between Iran's continuing deviousness and the openness and thoroughness with which Libya has started to make a clean breast of its nuclear bomb-seeking past. Iran also continues to sponsor terrorism against Israel and, unlike the Arab countries, it has yet even to accept Israel's right to exist. Finally, its human-rights record is still very poor, most notably, of late, vis-à-vis the coming sham election.

Yet the clerics still hanker after better relations with the West as well as with other countries in the region. In particular, they hope for a trade and co-operation agreement with the European Union, and more investment from around the world. Unless they do a lot better on all the scores listed above, they should get none of it. Nor, for that matter, should the heir to Britain's throne, Prince Charles, have visited Iran as he did last week, inevitably giving the impression, however unintended, that the clerics deserve a pat on the back. Not yet.

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A St Valentine's Day sonnet

Love makes voles of us all

Feb 12th 2004
From The Economist print edition

A Shakespearian reaction to this week's science section (see article)

Shall I compare thee to a prairie vole?
Thou art more faithful and monogamous.
Rough winds may blast thee, stress may take its toll
And botox leave thy brow impervious;
Sometime too hot the eye of heaven shines
And oft thy sun-cream UV rays lets through;
And every perfect pout at last declines
Into a wrinkled spouse's sulking moue.
But our strong love shall not its power lose
While opioids keep us on the straight and narrow
While oxytocin does its magic prove
And vasopressin binds us one to other.
So long as men can keep their hormones potent
They'll be romantic as that model rodent.

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Letters

Feb 12th 2004
From The Economist print edition

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Health care's hidden costs

SIR – You argue that the $19 billion Germany saved on drug costs from price controls was actually a net loss of $3 billion considering the resulting lower profits for drug companies and loss of high-value jobs ("The trouble with cheap drugs", January 31st). In this analysis you equate wins or losses with corresponding gains or losses to overall GDP, a poor measure when it comes to assessing the trade-offs for a basic human need like medical care.

Medical costs disproportionately burden the poor. The American Medical Association estimates that there are 43.6m Americans with limited access to health care. By curbing profit-taking on prescription drugs, Europeans may lose out in "competition" with American business, but they increase the real wages of their working poor and care more effectively for their most vulnerable citizens.

Anna Mecagni
New York

Bill's helping hand

SIR – It is enlightening to read the biographies of the American primary spouses ("Primary colour", January 31st). Will you present the same table in four years, when Hillary Clinton is a Democratic front-runner? Her husband should score better than any of the current contenders. His previous job was president; he is unlikely to shirk the responsibilities of campaigning; he should score well as a feminist by letting his wife run for president; and he is renowned for his public displays of affection. Is he, however, a woman of the people? Perhaps that is an area he can work on.

Gretel Pickering
Cambridge, Massachusetts

Good business; bad business

SIR – The death of corporate social responsibility may be no bad thing ("Two-faced capitalism", January 24th). CSR is a misguided attempt by business to fend off social and environmental regulation by arguing that private innovation can provide better, more cost-effective solutions than governments. At the same time corporate leaders have rightly faced the wrath of activists for failure to deliver on this promise. Why? Because markets are not currently geared towards delivering ethical social and environmental outcomes.

The reality is that only about 5% of consumers make ethical decisions in their purchasing habits. Innovation by business alone will not be enough to tackle the overwhelming problems of our time, from climate change to global poverty. If we were to wait patiently for business to deliver the goods, we would all be underwater before long.

Deborah Doane
New Economics Foundation
London

SIR – The CSR performance of companies is an increasingly robust proxy and leading indicator for their

overall management quality. Ask any analyst. CSR analysis provides valuable insights into management quality, which are simply unavailable from more traditional investment approaches. With few exceptions, companies managing CSR issues better than their competitors have out-performed them financially as well. As issues such as climate change and access to affordable medicines in emerging markets hit corporate bottom lines with ever-increasing impact, this out-performance gap will grow. If it makes CSR any easier to swallow, think of it as an additional and increasingly important source of investment insight.

Matthew Kiernan
Chief executive
Innovest Strategic Value Advisors
Richmond Hill, Canada

Insignificance?

SIR – Hurrah to Deidre McCloskey and her colleagues for ringing the bell on statistical versus practical (ie, economic) significance (Economics focus, January 31st). The misuse of significance is not limited to economics: sociologists and psychologists in particular are prone to fall into the significance pit. The problem with significance is, significant relative to what?

Statistical significance is calculated relative to the mean of the data under examination, but the mean is not always the appropriate measure. The average height above sea level of terrain throughout the world relative to the earth's radius is not statistically significant. Not even Mount Everest qualifies as statistically significant. However, as anyone who has ever attempted to climb Everest will attest, it is assuredly significant in a practical sense.

Eugene McManus
Pictou, Canada

Africa's nomads

SIR – Your survey of sub-Saharan Africa concentrates on two primary means of improving the lot of Africans: better government and better defined management of land ownership (January 17th). It assumes that the potential beneficiaries remain sedentary. But both in North Africa and in sub-Saharan Africa there are ancient societies of itinerant herders who consider themselves the only truly free peoples of the world. They have moved from one grazing area or water hole to another since pre-biblical times.

Closing off these traditional migrations, a certain consequence of massive land reform, would destroy the ancient cultures of people who are not an economic burden at the moment and who are highly successful in their present adaptations. This presumes an unjustified conviction that western culture is the only way to go.

A.E. Powell
Solon, Ohio

SIR – In 1892, at the Battle of Mengo, just outside where Kampala is today, Catholics went to war with Protestants. That war was caused, in its entirety, by a European mind-set. The genocide in Rwanda in 1994 also was caused, in part, by a European mind-set.

In the past, as you point out, decisions in Africa were often taken “under the big tree” as Julius Nyerere used to say: that is, by consensus. To our great shame, and in the name of democracy, a for-or-against, win-or-lose, majority-versus-minority European system of governance replaced that cohesive win-win system. To impose such a divisive polity on countries likely to be fractious on the basis of tribe or religion was at least unwise, yet this is what we did in nearly all of sub-Saharan Africa.

Peter Emerson
Belfast

Only here for the beer

SIR – You say of the eight new European Union members from central Europe that the beer is excellent but “the region lacks any national cuisine worth celebrating” (“Happy hotch-potch”, January 31st).

Luckily, cuisine is not a criterion for membership. How would Britain have squeezed in if not for its great beer tradition—not to speak of my own microstate?

Nicolas Hirsch
Luxembourg

SIR – Slovenia and Hungary make and drink primarily wine, not beer; while Poland shares, amply, the Russian love of vodka. Skip the food. But Hungary has a magnificent, distinctive cuisine to contribute, and Slovenia mixes Austrian, Balkan and Italian traditions to splendid effect. Mercifully, cabbage culture does not stretch from Tallinn to Ljubljana.

Nicholas Horsfall
Rome

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Kashmir

Your place or mine?

Feb 12th 2004 | DELHI AND SRINAGAR
From The Economist print edition

Reuters

As India and Pakistan begin talks on improving relations, the people of disputed Kashmir are torn between hope, anger and despair

Get article background

IN THE middle of Srinagar, the main city of the Kashmir Valley, the streets still bustle. The placid waters of the Dal Lake, the city's glory, are plied by lonely tourist-hunting boatmen under a winter sun glinting off snow-streaked mountain peaks. But the shoreline is patrolled by rifle-toting Indian soldiers. Armoured vehicles police the markets, and moderate separatist leaders go surrounded by security guards for fear of assassination.

“Militancy”, the local euphemism for explosions and other acts of terrorism, persists, as does Indian counter-insurgency. In recent weeks, India's forces have managed to kill several prominent militant leaders. On February 6th, in a traditionally pro-Pakistan area of Srinagar, a demand that police release the body of one leader, Rafiq Dar, turned into a near-riot. A mob pelted the cars of separatist leaders with stones, in protest at their ineffectiveness in resisting India. Three days later, 15,000 people demonstrated against the killing of five civilians in an army operation.

Among the resisters, who have been struggling bloodily for 15 years, the mood is bitter. “Everybody knows India has won,” says one. “It has used violence to tire people out. Now, there will be no dignified way out.” Others may be less candid, but many share the anger and humiliation.

Yet this is supposed to be a moment of unprecedented hope in Kashmir's long agony. At a meeting in Islamabad last month, Atal Behari Vajpayee, India's prime minister, and Pervez Musharraf, Pakistan's president and army chief, edged away from long-entrenched positions. India accepted that Kashmir was a “bilateral issue” that could be discussed with Pakistan, and needed settlement. For his part, General Musharraf promised to lend no support to terrorism. This was taken as a pledge to stop financing, training and arming the militant infiltrators India blames for fomenting and waging the uprising in Kashmir. Next week, from February 16th-18th, senior diplomats from the two countries will meet, again in Islamabad, to start mapping out plans for a “composite dialogue” that will include Kashmir.

Last month saw another hint of a thaw. Mr Vajpayee's deputy, Lal Krishna Advani, held talks in Delhi with a group representing factions of the All-Party Hurriyat Conference, an umbrella for various Kashmiri

separatist groups. The delegation visited Mr Vajpayee, too, and declared him serious about achieving peace.

That so many in Kashmir discount the prospects for peace stems, in part, from the fact that Kashmiris will take no part in next week's talks. But they also say they have seen no improvement in their daily lives. This is not entirely fair. Along the “line of control” that divides Indian- from Pakistani-administered Kashmir, a ceasefire declared by Pakistan last November and reciprocated by India has ended the ritual cross-border shooting and shelling. In Srinagar, these days, soldiers spend more time in their bunkers and less frisking passers-by.

A “healing touch” was the promise held out to Kashmiris by the new state government that took power after the elections of November 2002. The ballot had been boycotted, as usual, by the Hurriyat, and few people in the Valley voted, but it was generally seen as free and fair. The winning coalition, led by the People's Democratic Party (PDP), freed some detainees, including a few leading separatists, and a much-hated Special Operations Group (SOG) of the Indian police was merged with regular forces.

But Pervez Imroz, a human-rights lawyer in Srinagar, sees no difference between the present government and its predecessors in their inability to hold the security forces to account. Harassment of civilians continues in the countryside. The SOG may have been disbanded in name, but it continues to operate. Many Kashmiris believe that killings in “encounters” with the army or police, such as that of Mr Dar, are in fact deaths after torture in custody.

Disappearances continue, and are blamed on the security forces. The state government suggests that 3,931 people have disappeared since the uprising began. The police deny this, claiming that most of those who have vanished fled of their own accord, some to join militant groups. Mr Imroz believes the true number of the disappeared is around 8,000. Militants, too, abuse human rights, and in some places are more feared than the Indian army. They have a grisly record of mistreating civilians and of killing their own comrades when they show signs of moderation.

Kashmiris are weary of war, but scepticism about recent “breakthroughs” is understandable. It has deep roots in history, in the divisions among Kashmiris themselves, and in the strong arguments against every “solution” proposed so far.

The wavering maharajah

Almost every interview with a Kashmiri politician starts with a history lesson, dating from the partition of India in 1947. India's “princely states”, which had retained notional independence, were given the option of acceding to India or to Pakistan. One such was Jammu & Kashmir, which had a Muslim majority but a Hindu maharajah. He vacillated, until his hand was forced by a tribal rebellion in part of his kingdom, backed by Pakistani tribesmen and regular soldiers. To secure military help, he acceded to India in October 1947, and the first of three India-Pakistan wars started. India appealed to the United Nations Security Council, which in January 1948 passed the first of its 18 resolutions on Kashmir.

Later that year, the UN called for a plebiscite to ask Kashmiris to choose between India and Pakistan, once Pakistan's forces had withdrawn. Pakistan still demands that the vote be held. But the first war ended in July 1949 with Kashmir divided, as it still is. India, viewing Pakistan as illegally occupying part of its territory, argues that a plebiscite is irrelevant.

The war left India in control of about 45% of the old kingdom's land area. The Indian state of Jammu & Kashmir now incorporates three parts: Ladakh, divided between Buddhists and Muslims; Jammu, with a Hindu majority; and the 130km (80 mile) -long, 55km-wide Kashmir Valley, which has a Muslim majority and more than half the state's population of 10m. Some 3m Kashmiris live under Pakistani rule in “Azad” (“free”) Kashmir and the Northern Areas. To complicate things further, some 20% of largely uninhabited historic Kashmir is under Chinese control.

Under “temporary provisions” enshrined in Article 370 of India's constitution, the state of Jammu & Kashmir was promised considerable autonomy. But this has never materialised. After an egregiously rigged state election in 1987, some Kashmiris took up arms. Some of their compatriots from Pakistan-controlled Kashmir began to join their struggle. So too, through the 1990s, did increasing numbers of Pakistanis, Afghans, Chechens and others, seeing in Kashmir a *jihad* like that in the 1980s against the Soviet occupation of Afghanistan.

Pakistan's army and intelligence services have helped run the war. The firing over the line of control was seen by India as a device to provide cover for infiltrators. In the winter months, when the high mountain passes into the Kashmir Valley are snowbound, infiltration tails off anyway. This year, says India, it has halted almost altogether. India is waiting to see if the summer brings an expected rise in “exfiltration”, in implicit fulfilment of General Musharraf's promise.

By Indian estimates, some 40,000 people have died in the war. Leading members of the Hurriyat say 100,000. Even last year, when relations were improving, more than 3,000 people were killed. The Indian army says they included 818 civilians and 1,345 “terrorists”, 935 of them foreigners. Some 500,000 Indian soldiers, paramilitaries and police are stationed in the territory, fighting an estimated 2,000-3,000 militants. At times the conflict threatens to widen. In 1999, Pakistani incursions in the Kargil area, planned by General Musharraf before he seized power in a coup, led to fighting in which at least 1,000 soldiers died. In 2002, after India blamed Pakistan-backed terrorists for attacks the year before on the assembly in Srinagar and the parliament in Delhi, hundreds of thousands of troops massed on the line of control and the international border. Full-scale—even nuclear—war seemed possible.

As Pakistan sees it

Some proposals for stopping the slaughter date back half a century. Pakistan still demands a plebiscite. It

has two fundamental reasons for clinging to its claim. It was founded as the homeland for India's Muslims, and feels incomplete without its neighbouring Muslim-majority state. Kashmir was the “K” in the acronym that made up the name Pakistan, which also means “land of the pure”. Without Kashmir, “Pakistan” is literally meaningless. Second, Pakistan's army has long hankered after the “strategic depth” Kashmir would give it. It will never feel utterly safe without it. There is a third reason for fuelling the war, however: at a low cost to Pakistan, it keeps half of India's army tied up.

Syed Ali Shah Geelani, the leader in Indian Kashmir of a breakaway, pro-Pakistan faction of the Hurriyat, sees Kashmiris as victims of a global conspiracy against Muslims, cheated of their rightful incorporation into Pakistan. The talks his former Hurriyat colleagues have opened with Delhi are “meaningless, unnecessary and futile”. Similarly, the India-Pakistan dialogue on Kashmir is doomed to “utter failure”. “We are not warmongers, not interested in bloodshed,” he says, “but India ignored us for 50 years.” If the insurgency lasts another 30 years, “it doesn't matter”.

Reuters

For Pakistan, India, or neither, but wanting to be heard

India's official position mirrors Pakistan's: it, too, claims the entirety of the old kingdom. But India has long let it be known that it is ready to discuss the permanent division of the state along the old 1949 ceasefire line—roughly the present line of control, on part of which it is now erecting a fence equipped with high-technology sensors. India also has deep-seated objections to ceding Kashmir. As a secular union, it needs its sole Muslim-majority state, and fears that if Kashmir is granted independence or joins Pakistan, other states may want to leave the union as well.

Many Kashmiris would favour neither Pakistan nor India, but independence. Even short of that, they are outraged that India and Pakistan could contemplate discussing their future with no Kashmiris there. Yasin Malik, leader of the Jammu & Kashmir Liberation Front, a secular nationalist group, is running a signature campaign to demand Kashmiri participation in the talks. “This is not a bilateral issue; not a border dispute,” he says, “It is related to the people of Kashmir.” He claims to have nearly 1m signatures already, and hopes to secure 2m.

But how many seats at the table? And filled by whom? Sajjad Lone of the People's Conference, a moderate Hurriyat member, says that, in the search for a solution, “Kashmiris have been reduced to an ornamental role, because India and Pakistan have made up, and because of the inherent fragmentation of the Kashmiri leadership.” The Hurriyat itself is split. Then there is the PDP government elected in 2002, and the other parties that won votes. Umar Farooq, part of the Hurriyat's delegation to Delhi, concedes that these elected politicians too have constituencies to consider. Then there are the Buddhists of Ladakh and the Hindus of Jammu, who would probably prefer complete incorporation into India. There is also the Hindu minority in the Valley itself, the *pandits*, most of whom—60,000 families by some estimates—have fled the Valley for fear of anti-Hindu pogroms.

Were Kashmir discussed at such an expanded table, every solution would be unacceptable to somebody. Hurriyat leaders such as Mr Farooq rule out “trifurcation” of the Indian state into its three component parts—in effect, a division along religious lines. Similarly, they would reject the “Chenab” formula, under which the state would be repartitioned along the bed of the Chenab river, which would leave most Kashmiri Muslims in Pakistan. India, rejecting a plebiscite, would be no more amenable to one in which people were asked about the future not of the whole state, but of their own district or sub-district. Nor does it seem ready to contemplate imaginative proposals devised by the America-based Kashmir Study

Group. These envisage the reconstitution of part of Kashmir as a “sovereign entity without an international personality”—ie, just short of full independence.

Flickers of light

There is no public sign that India is prepared to accept anything other than a solution based on the status quo. And as General Musharraf put it last year, in remarks much quoted in Srinagar: “The line of control is why we have had three wars. That is the dispute. It can never be the solution.”

So is all the talk of breakthroughs and settlements so much hot air—part of Mr Vajpayee's campaign for victory in elections to be held this spring, and General Musharraf's bid for international respectability? Not quite. Both leaders seem sincere in seeking a peace that is clearly, after all, in both countries' interests. Mr Vajpayee has taken bold political gambles to pursue peace even when unremitting hostility has appeared the safer electoral option. General Musharraf is struggling to prove he is part of America's answer to the scourge of terrorism and not part of the problem. The revelation of Pakistan's involvement in the sale of nuclear secrets to Libya, Iran and North Korea makes it even more imperative to show evidence of good behaviour elsewhere. The general's narrow escapes from two assassination attempts late last year—blamed on extremist Islamists—also highlighted the dangers of pandering to Pakistan's *jihadi* groups.

In both countries, says Pran Chopra, a veteran Indian journalist and commentator, “the circle of sanity is widening.” But neither has done much to prepare public opinion for a climbdown. General Musharraf has said that both sides must shift a bit, and has hinted at dropping Pakistan's insistence on a plebiscite. But each country expects concessions from the other. General Musharraf has to contend with elements of his own army and intelligence services and their *jihadi* clients, who see Pakistan as incomplete without Kashmir.

Mr Vajpayee heads a Hindu nationalist party, one of whose platforms has long been the revocation of Kashmir's special status under Article 370. The army in India has never had the clout of its Pakistani counterpart, but it too would find it hard to accept concessions after losing so many lives. An opinion poll in *Tehelka*, a new weekly newspaper, suggests that 87% of soldiers see the Kashmir problem as one of terrorism, not a freedom struggle.

Even if Indians and Pakistanis could be convinced that peace in Kashmir is worth a few concessions, there remains the difficulty of selling a settlement to disaffected Kashmiris. The Hurriyat's Umar Farooq says India must soon adopt measures to persuade them that this is a serious peace effort. A huge step forward would be the promised opening of a bus route across the line of control, between Srinagar and Muzaffarabad. It raises tricky issues, notably over travel documents, but holds out the promise of a gradual “softening” of the border, allowing Kashmiris to travel, mingle and trade. People-to-people contacts would slowly lessen the importance of political symbols, and India would grant Kashmir greater autonomy. Eventually, India hopes, politicians such as Umar Farooq, the hereditary spiritual leader of the Valley's Sunni Muslims, might be enticed into mainstream Indian politics.

If it works out that way, it would indeed look like an Indian “victory”. The difficulty will be to avoid making that look like a Pakistani and Kashmiri defeat.

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George Bush

Warrior king?

Feb 12th 2004 | WASHINGTON, DC
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AP

In what may have been the most fragile week of his presidency, George Bush seemed to decide to run as a war candidate. Is that a good idea?

Get article background

"I MADE up my mind at that moment that we were going to war." Thus George Bush on what went through his mind as he heard that aircraft had smashed into the World Trade Centre on September 11th 2001. Now he is going to the country on his warrior's record. "I'm a war president," he declared flatly on February 8th. "I make decisions here in the Oval Office...with war on my mind."

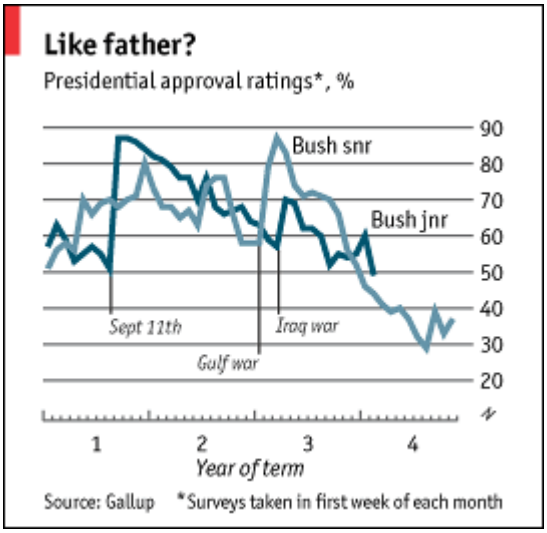
The occasion was unusual: the start of an extended televised interview. As president, the oratorically-challenged Mr Bush has avoided torture by television, and his decision to subject himself to an hour of grilling on "Meet The Press" reflects the White House's view that he had to counter his recently diminished standing. But the remark itself was more striking—proclaimed at the start like a credo. This is Mr Bush's campaign doctrine, and a prism through which to look at his sudden problems and longer-term advantages.

Running as a war leader has risks—most obviously, what happens if the war goes wrong? When Mr Bush talks of being a war president, he is referring to the war on terror. But to voters, "war" means Iraq—and as problems have multiplied there, his public support has slumped.

Two months ago, his approval rating was higher than those of his four predecessors at that stage of the election cycle. Now one Ipsos-AP poll gives him a negative rating (more people disapprove of him than approve); and according to Gallup, his rating is only just above that of his father in the February before he was beaten by Bill Clinton (see chart). In a *Newsweek* poll, more people now oppose Mr Bush's re-election than support it. More people feel strongly that Mr Bush should go than strongly want him re-elected—the wrong end of an intensity gap, notes Ruy Teixeira, a Democratic poll-watcher.

Perhaps this is a passing phase, or the result of things other

than war, such as the Democrats' surprisingly successful primaries, Mr Bush's proposal of a 2005 budget with a record-setting deficit, or his dismal state-of-the-union address. No doubt all these things—and especially the emergence of John Kerry as the Democrats' presumptive nominee—exacerbate the president's problems. But they existed anyway, and are mainly related to war.



The National Annenberg Election Survey, which tracks public opinion daily, found that the president's job-approval rating plunged a stunning ten points in the week after David Kay, the former head of the Iraq Survey Group, resigned saying weapons of mass destruction might never be found in Iraq. The correlation is striking. Moreover, the failure to find promised WMD is going hand-in-hand with increased doubts about Mr Bush's credibility. In a poll for *Time*/CNN, only 44% described him as “trustworthy” compared with 55% who have reservations. Nearly two-thirds of independents have doubts.

For three years, Mr Bush has been boosted by big events in the war on terror. His ratings went through the roof after September 11th 2001 and again when America invaded Iraq. Since then, successive incidents have helped him less. The increase in his numbers after the fall of Baghdad was less than after the invasion; the spike after the capture of Saddam Hussein wore down after a month. So on top of the recent setbacks in Iraq, the long-term appeal of being a war president seems to be slackening.

But there is a more fundamental problem with running as a war president: the majority of Americans do not think the country is at war, in the sense of being transformed by the military conflict. Voters tell pollsters again and again that the most important issues are the economy and jobs, with health care high up. In a *Newsweek* poll, 36% said the top priority was the economy and jobs, 19% said health care; only 14% named terrorism. Sometimes the war in Iraq is high on the list of concerns, but this is misleading: at least half of those concerned about Iraq worry about it because they oppose military action, so this measures opposition to Mr Bush as much as support.

In such circumstances, war can drive a wedge between president and voters on domestic issues even if he is deemed to be doing a good job on national security. That may be happening with Mr Bush. He is respected as commander in chief and his rating as a war leader is far higher than on any other policy area, such as economic management, health care or the budget. But Mr Bush seems to be losing the personal bond with voters that he enjoyed after September 2001.

In the *Time* poll, only 53% of the respondents say Mr Bush “cares about the average American”, compared with 45% who thought he did not. In contrast, two-thirds of the public think the patrician Mr Kerry cares about the average Joe, and only a fifth do not. Arguably, Mr Bush's very success as a war president is undermining the personal regard in which voters once held him because it makes him more distant from their concerns. That is the price of running as a warrior at a time when voters are concerned about jobs.

The reckless and the feckless

There are two other complications that arise from Mr Bush running primarily as a war president. First, it is hard to run as war leader and tax-cutter-in-chief at the same time. War puts strains on a society, which traditionally copes by sharing the burden, but there has been precious little burden-sharing in America after September 2001.

Not only have Mr Bush's tax cuts disproportionately benefited the wealthy; now, under his proposed 2005 budget, the burden of reducing the deficit would fall on discretionary-spending programmes which benefit the poor. In addition, the long-term budget deficits that this president is producing may undermine the war on terror by forcing cuts in military spending and foreign-aid. Whatever the case for his economic policy in its own right, it is at odds with his national security stance.

The second complication is the emergence of Mr Kerry as the Democrats' presumptive nominee. So long as Howard Dean was the front-runner, the contrast between him and Mr Bush was to the president's advantage: after September 11th a war president was always likely to beat an anti-war one. But on the

campaign trail, Mr Kerry argues: “America is at war, but this is a different kind of war in which policing and international relations are vital.” In other words, he wants to make the debate about the method of fighting the war, rather than the rights and wrongs of war itself. Mr Bush's uncomplicated appeal may still prevail over Mr Kerry's more nuanced, convoluted one. But the choice between what might be called the reckless and the feckless will be close.

And nasty. If you present yourself as a war leader (especially against a certified Vietnam hero), you open up your own military service to scrutiny—and Democrats are gleefully making an issue of Mr Bush's service during the Vietnam war in the Texas National Guard. Terry McAuliffe, the head of the Democratic National Committee, said the president was AWOL, referring to unexplained absences during his period in the Guard. This week, the administration released records showing Mr Bush had been paid by the Guard for almost all the disputed periods, except one when Mr Bush says he reported for duty in Alabama. Investigations rumble on, but it is already clear that Mr Bush's opponents will challenge his assumption of the mantle of war president at every turn.

Given all these risks, why should he choose to stress his record as a war leader almost at the start of the general election campaign? He could, after all, have talked about, say, his compassionate conservatism, or even the strength of the economic recovery. The answer is that appealing to America's *Id* is, after September 11th, his most powerful argument.

Mr Bush's core political asset is his reputation for resolute leadership. As he claimed in his televised interview, he is prepared to make tough choices that will make America safer. Even allowing for the way that his reputation as a straight shooter has been eroded, he retains his standing as a “strong and decisive leader” with two in three voters. And he gets higher marks for his handling of the war on terrorism than for anything else.

Mr Bush duly burnished this reputation for such generalship later in the week with a speech on nuclear proliferation. He boasted about the success of American and British spies in unmasking a black-market weapons ring in Pakistan (see article). But he also derided the current anti-proliferation regime as inadequate and urged the UN Security Council and the International Atomic Energy Agency to enforce stricter rules.

Next, presenting himself as a war leader gives him extra arguments against two powerful criticisms: that his economic management has been poor and that the war on Iraq was unnecessary. In his televised interview, he argued that Iraq partly explains (and justifies) recent economic problems. He also claimed the wider war on terror explains (and justifies) the war in Iraq because the attacks of September 2001 drastically altered the acceptable level of risk: “we were attacked and therefore every threat had to be reanalysed.” Of course it is not clear voters will buy either of these arguments (especially the first). But they add to Mr Bush's armoury.

The party line

Lastly, the war on terror is the best way for him to keep the various parts of the Republican base united. To over-simplify, three main issues bring people to the Republican Party: low taxes, traditional values and national security. Tax cuts are wildly popular with most Republicans, but not with a significant minority of budget hawks who have been appalled by ballooning budget deficits. Cultural issues—the White House is hinting that Mr Bush will soon come out in favour of a constitutional ban on gay marriage—electrify evangelical Christians. But they appall the party's libertarian wing, which thinks the government has no business regulating on personal morality. Only 34% of Republicans want a constitutional ban on gay marriage, according to a new Pew poll.

Yet almost 90% of Republicans say defending America against terrorism should be a top priority of the administration (compared with only 70% of Democrats). A stress on national security unites Republicans better than anything else—and provides a nice contrast with Democrats.

All these are considerable advantages, and their strength is being obscured now because so much bad news—such as the failure to find WMD—is emerging. It is surely better that such flak is dealt with now than in October.

That said, perhaps the most striking characteristic of any war reputation is fragility. Between now and election day, America is due to hand over power in Iraq. This could go well, enhancing the president's standing. Or it could precipitate chaos. There could be another terrorist strike (this has just happened in

Russia, five weeks before that country's presidential election). Or perhaps Osama bin Laden could be captured. War leaders, above all others, are hostages to the uncertainties of conflict. That will be true of Mr Bush, too. His decision to go to the country as a warrior-president is a big gamble.

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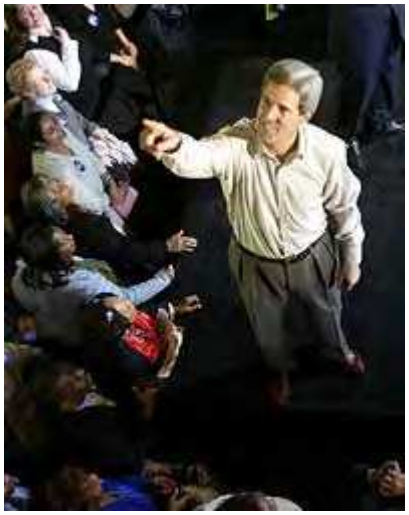
The Democratic primaries

He's got a ticket to ride

Feb 12th 2004 | FAIRFAX, VIRGINIA
From The Economist print edition

John Kerry gets ever closer to the nomination

Reuters



"THE guy hung out with John Lennon," shouted Emily McGrane over the din at a John Kerry rally. "How cool is that?" The photograph on her T-shirt shows Mr Kerry and the Beatle protesting together against the Vietnam war. The accompanying words are "Imagine President Kerry". That might still be a bit of a stretch, but John Kerry the Democratic nominee takes no imagination at all. Indeed, it is hard to imagine anyone else.

After victories in Virginia and Tennessee this week, the electability express is pulling out of the station. Mr Kerry also won in Michigan, Washington state and Maine a couple of days before, so he has now racked up victories in every part in the country, disproving the argument of his most plausible rival, John Edwards, that he cannot win in the South. Mr Kerry took Virginia by a landslide and Tennessee comfortably (see table).

Mr Kerry does not have the nomination yet; indeed he has only a quarter of the 2,162 delegates required. But this Democratic contest is already becoming the quickest and cleanest "competitive" primary race of modern times. Mr Kerry transformed the competition by a single victory in Iowa, and since then, every primary has confirmed his advantages.

Take veterans for instance. In the earlier states, Mr Kerry won the vet vote narrowly. In Virginia, he won half their votes and trounced Wesley Clark even in Norfolk, which has one of the largest naval bases in the country. General Clark, who had earlier tried to pull rank on Lieutenant Kerry, dropped out of the race the next day. Or what about black voters? Mr Kerry narrowly lost them to Mr Edwards in South Carolina, took half the black vote in Missouri and went on to win 61% of black votes in Virginia.

Go John go

Democratic primaries held February 7th-10th, % of vote

State	Kerry	Dean	Edwards	Clark
Maine*	45	27	8	4
Michigan†	52	17	13	7
Tennessee	41	4	27	23
Virginia	52	7	27	9
Washington*	48	30	7	3
Delegates‡	538	182	166	89

*Kucinich in third place †Sharpton in fourth place
‡Total as of February 11th; 2,162 needed to win nomination
Source: Associated Press

Above all, Mr Kerry's perceived ability to beat George Bush—that magical aura of electability—has gone from being an important advantage to the decisive one. In Virginia, fully nine out of ten voters said they thought Mr Kerry could beat Mr Bush. Among those for whom this was the most important consideration, three-quarters chose Mr Kerry.

The bigwigs of the Democratic Party changed their primary calendar this year with this sort of outcome in mind. By arranging a flood of primaries soon after Iowa and New Hampshire, they thought, the party could choose a candidate early, get the bitterness and bickering of the nomination battle behind it, rally round the winner—and get an early start on the task of unseating George Bush.

These hopes have been abundantly fulfilled. One by one, the candidates of different factions of the party have fallen by the wayside, or rallied behind Mr Kerry. The union-dominated, blue-collar workers supported Dick Gephardt. He dropped out after Iowa and endorsed Mr Kerry. The business-friendly New Democrats liked Joe Lieberman. He left after the third round of primaries last week. Some of the Clintonistas threw their weight behind Mr Clark, who has now gone. One might have expected African-

Americans to have supported Al Sharpton (as they backed Jesse Jackson in 1988). In fact, blacks have gone largely to Mr Kerry. Similarly, Howard Dean might have mopped up the college-professor-and-student vote: this has gone to Mr Kerry too.

Democrats are a famously fractious bunch. But for once, Will Rogers's jibe—“I'm not a member of any organised political party. I'm a Democrat”—does not apply. There has been little evidence of the unions, greens or New Democrats using the primary contest to advance their competing agendas. The party seems likely to end up with a respectable, mainstream nominee, and no internecine warfare to recover from.

On the whole, that must be good news for Democrats. Republican hopes that Mr Bush would benefit from months of squabbling among his would-be Democratic rivals have come to naught.

But there is a catch. Primary battles toughen up the nominee for the fiercer attacks of the general election to come. Almost every impartial Democrat concedes that a few more weeks of campaigning with Mr Edwards would improve Mr Kerry's skills. Mr Edwards has consistently done better among moderates, independents and conservatives than the Massachusetts senator. A little more gentle sparring with Mr Edwards might allow Mr Kerry to burnish the centrist image he will need in the presidential contest.

Mr Edwards is still in the race and says he has enough money to compete for a few more weeks. But with a third of the delegates up for grabs on March 2nd, the intriguing and improving battle between the two senators might be over almost before it has really begun.

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The electoral week

Primary colour

Feb 12th 2004
From The Economist print edition

We will rock you

"He tends to have a bit of a stiff reputation, but, objectively, the record's really great. It has that raw, primal rock 'n' roll spirit. For a teenage dance aesthetic, this is a really good record."

Erik Lindgren of Arf Arf Records in Massachusetts, on the 1962 LP by John Kerry's school band, The Electras, Boston Globe*, February 10th*

How Dennis won
Total delegates and campaign spending

Candidate	Delegates*	Money spent, $m†	$ per delegate
Kucinich	2	4.0	2,000,000
Dean	182	31.0	170,330
Edwards	166	26.0	156,627
Clark	89	10.0	112,360
Kerry	538	23.0	42,750
Sharpton	12	0.4	33,333

*As of February 11th †Up to January 31st
Sources: Associated Press; Centre for Responsive Politics

It's a vision thing

"You don't know what's going to happen a month, three months, six months from now. As I sit here today, I intend to fight with everything I've got to be the nominee."

John Edwards doesn't exactly deny that he'd accept the job of vice-president, "This Week", ABC, February 8th

He signs alone

"Though I've had big endorsements, I don't use them where I come from. The only time you need a co-signer is when you have bad credit yourself."

Al Sharpton, ABC News, "The Note", February 9th

The second coming

"My entourage consists of the solitude of my conscience and the sanctity of my integrity. I'm not out to impress anybody."

Dennis Kucinich, who has yet to win a primary, explains why he travels solo, Roanoke Times*, February 10th*

Stand by your man

"Seems to me that they're spending most of their time saying terrible things about my husband. And no, I don't really like that."

Laura Bush on the Democratic candidates, CNN, February 5th

One gay vote for the president

“I wouldn't kick President Bush out of my bed, although I do think he needs some sassy highlights.”

Carson Kressley, fashion expert on “Queer Eye for the Straight Guy”.

Don't mention the war

“I don't have any further comment on it. It's not an issue that I've chosen to make an issue.”

John Kerry, who often campaigns with fellow Vietnam veterans.“All Things Considered”, NPR, February 9th

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Tennessee's primary

The dwarf-killer

Feb 12th 2004 | NASHVILLE
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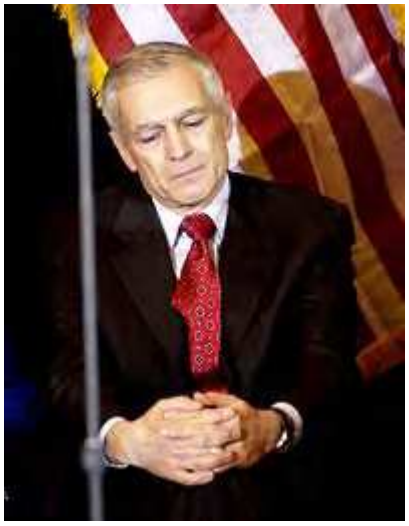
John Edwards knocks out Wesley Clark, but the Kerry tide roars on

Reuters



Clark bows out

FOR Democrats at the national level, Tennessee is a quicksand. At first, it seems the most inviting of the southern states: it has a Democratic governor, after all, and is Al Gore's home turf. But the trappings prove deceptive. Tennessee (split down the middle in the civil war) turns out to be conservative, fractious and hard to please. Worse, Mr Gore's word does not seem to go very far. In December, he endorsed Howard Dean; but Mr Dean eventually chose to skip the state in favour of Wisconsin, which votes next week, and received less than 5% of the vote.

John Kerry neglected Tennessee, coming to the state only during the closing stages. It did not prevent him from winning the state. By contrast, the second- and third-place finishers, John Edwards and Wesley Clark, stumped heavily in Tennessee in the week before the campaign. Both the two southern candidates needed to do well there; both expected to appeal to rural voters. Neither could resist the Yankee senator's momentum, helped by the last-minute endorsement of Ned McWherter, an amiable former governor.

Tennessee allows early voting, but even someone who voted on the first day possible (January 21st) would have done so after Mr Kerry won in Iowa. Mr Clark had been running television ads since December, but his criticism of the Iraq war was not going to find many takers in generally conservative Tennessee (one reason why Mr Dean skipped it). Low voter turnout probably also hurt the general, who too often came across as a political novice, even in the South. As for Mr Edwards, he was unable to do as well among black voters, a key factor in his South Carolina victory, as Mr Kerry was. And—worryingly for the North Carolina senator's populist campaign—those who felt the economy was doing badly also tended to vote for Mr Kerry, rather than for him.

The exit polls pointed to a Kerry victory so quickly that at 9.30pm, only two-and-a-half hours after polls had closed, the crowd of Edwards supporters at the Loews Vanderbilt in Nashville had dwindled to less than two dozen. The ones that stayed behind hugged, cheered and celebrated when news came that Mr Clark would drop out. “We killed him,” one Edwards staffer shouted to another.

So Mr Edwards emerges from the Tennessee quicksand both stronger and weaker. On the one hand, he no longer has to split votes with a rival southerner. On the other, Mr Kerry's momentum is propelling more southern Democrats to his side: Max Cleland, a former senator from Georgia, attended his victory rally. Tennessee has given Mr Edwards a window of opportunity—but not a very large one.

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Troop rotation

Fearing Fort Bragg

Feb 12th 2004 | CHICAGO
From The Economist print edition

The men, women and problems now coming home from Iraq

Get article background

AP

Welcome home. Now go earn some money

WITHIN certain military circles, “Fort Bragg” is a code word for what the stress of combat can do to a man. In 2002, the murders of four military wives by their soldier husbands within six weeks at the base in South Carolina prompted the army to take a hard look at how combat affects troops and their families: three of the Fort Bragg soldiers had returned from special-forces duty in Afghanistan. Two of the men committed suicide after killing their wives.

With 123,000 troops returning from Iraq in the next few months (to be replaced by 110,000 soldiers and Marines), and another 11,000 being “turned” over in Afghanistan, America is in its largest troop rotation since the second world war. General Richard Myers, chairman of the Joint Chiefs of Staff, has called the operation “a logistics feat that will rival any in history”; it may also have a sizeable social effect.

A virtual battalion of chaplains, social workers, psychologists, psychiatrists, domestic and child-abuse counsellors, financial advisers and others are on tap to embrace the combat-weary human wave about to hit America's shores. There are websites, pamphlets, hotlines and support groups. Over 400 “family readiness centres” are open. At Fort Campbell, Kentucky, where more than 18,000 soldiers are due home in coming months, reunion seminars are being run for spouses.

This may sound ordered, but as Joyce Raezer of the National Military Family Association points out, “a lot of these services are making it up as they go along”. One reason for this is that the changed nature of America's fighting force raises new issues from those encountered after Vietnam or even the last Gulf war.

A different sort of army

Around one in five of the troops in Iraq are reservists or part of the National Guard—and that proportion will double after the current rotation. These part-time soldiers are typically older, more likely to be married and have children than regular, active-duty soldiers; and most of them have jobs. They will return to civilian life, making them less easy to monitor than active-duty troops returning to bases.

There are also financial worries. The armed forces say that two-thirds of the reservists and National Guards mobilised have been paid the same or more than they get in Civvy Street. Harder to account for is the cost of leaving a family business unattended or missing a key promotion. On February 11th, several state lieutenant-governors launched a programme of grants for financially strapped families of reservists and National Guard soldiers.

The Army Reserve and National Guard have both fallen short of their most recent recruiting targets. Fear of an exodus of Army Reserve and National Guard soldiers prompted the reservists' boss, Lieutenant-General James Helmly to criticise the army's treatment of his men and women. The Reserve, he said, needed to convince its troops that “we value your service and we're not going to run this like a doggone

flesh farm.” That would mean giving reservists more predictability in their lives—a tall order in an age of global terror.

The assistant secretary of defence, Thomas Hall, who oversees the reservist and National Guard operations for all military services, rejects suggestions that his forces are stretched thin. About 350,000 of them (38% of the “drilling reserve”) have been mobilised for federal duty since September 2001, leaving most of them available for more routine work like disaster relief. But Mr Hall admits plans are afoot to “rebalance” the mix of skills in his forces, the plan being to lessen the pressure on particular sorts of troops—military police, air-traffic controllers and also, sadly, morticians—that are called up most.

The idea that reservists can be sent overseas has come as a surprise to many families. “My son provided security for the torch at the Olympic Games: that's what I thought the National Guard did,” says Rosemarie Slavenas, an Illinois woman whose son was among 15 soldiers killed when a missile hit the helicopter he was piloting in Iraq last November.

Paul Vogel, whose son's tour of duty with the Army Reserve has been extended to a year, took the unusual step of travelling to Iraq to see his son last October. “The full-time guys don't let their guard down, but the reservists feel they've been sold a bill of goods on the whole deal,” he says. He and his wife have put an American flag in their snow-covered yard for every American killed in Iraq. The banner on the side of their Victorian mansion in a prosperous, Republican-dominated suburb of Chicago reads: “Proud of Our Soldier, Ashamed of Our President”.

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The New York scene

Best in show

Feb 12th 2004 | NEW YORK
From The Economist print edition

Curly tails are just so last year

MASSAGE, blow-drying, temper tantrums, big hair, therapy, diets, spas, disdain, treadmills, flashing cameras and bitches from hell. All are expected and, indeed, accepted elements of New York's Fashion Week. They also loom large in this week's other event, the Westminster Kennel Club Dog Show.

In both, the real show is behind the scenes. In the benching area, contestants have their coats brushed, their split ends trimmed and their fur fluffed out with mousse. (Shefaro Alejandro's Mariska, a successful borzoi, uses only Canadian hair products.) Claws are meticulously shaped, teeth cleaned.

Some handlers apply mascara and eyeliner; a few are said to attach hairpieces, which is not allowed. A past winner of Crufts, the British equivalent of Westminster, was rumoured to have had a face-lift (later proved to be untrue). Some dogs are so desperate to win that they have not only groomers and handlers, but also agents.

Les Poochs, a boutique which styles itself “the Louis Vuitton of the dog world”, makes a killing at Westminster. Japanese ergonomically designed shears sell for $2,000. “Pooch de Noël” fragrance goes for $500 a bottle, Italian leather collars and leashes for as much as $5,000. Les Poochs' couture shampoo not only detangles, but is PH-balanced and causes no tears.

Several stalls sell dog food, but not just any old kind. Some sorts promise to reduce cell damage and improve skin and coats. Some help the overweight: one vendor describes his product as a doggie version of the Atkins diet. Others sell nutritional supplements to improve canine vision and joints.

Across the street, in the basement of the Hotel Pennsylvania, contestants can unwind in the salon and spa. The spa promises to condition the canine mind, body and spirit. Some mutts work out, using jog-a-dog treadmills. Others make for Dana Dymoke, a professional masseuse, who works in a curtained-off room with muted lights, candles and ocean sounds. So popular is Ms Dymoke that she refused to speak to *The Economist*, saying,“I'm with a client.”

The next big event at Madison Square Garden will be the Republican National Convention. Look for similar levels of primping and stress, but slower sales of Italian bondage gear.

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Lexington

A useful piece of scream therapy

Feb 12th 2004
From The Economist print edition

Howard Dean may not have been such a terrible thing for his party after all

ACCORDING to T.S. Eliot, the world ends not with a bang but a whimper. Howard Dean's presidential campaign is ending not with a bang but with a scream followed by a succession of whimpers. Mr Dean is currently engaged in a convoluted debate with himself about whether he is going to quit the race if he fails to win Wisconsin. But the uncomfortable fact is that he has little more chance of winning the nomination than the great Dennis Kucinich, who is also still running, or even Wesley Clark, who dropped out this week after being trounced by John Kerry.

The erstwhile front-runner has not only failed to win a single state. Mr Dean has also seen his competitors stealing his best lines while systematically undermining the rationale of his own campaign. What can you make of an “outsider” who drafts a Washington lobbyist to run his campaign? Or a “fiscal conservative” who blows nearly $40m to no obvious effect?

Politics is an unforgiving business, where the media bandwagon happily drives over the heaped bodies of the slain. This newspaper has made no secret of its worries about Mr Dean's plausibility as a presidential nominee. But before driving over Mr Dean, it is at least worth pausing for a moment to examine his services to his party.

Most failed politicians are nothing more than footnotes. Who gives a damn these days about Ed Muskie or Morris Udall? But some actually help to write new chapters in political life: look at Paul Tsongas's role in converting the Democrats to fiscal responsibility, for example. Mr Dean has earned a lifetime membership of the club of consequential losers.

Most of his political obituarists have focused on the mechanics of his campaign. Al Gore may have invented the internet, goes the argument, but it was Mr Dean who turned it into a weapon of mass political construction. He raised millions in small donations on the internet and used it to bring thousands of young people into the political system: Deaniacs who met in coffee shops across the nation and promised to bear any burden and pay any price to get rid of the Toxic Texan.

The trouble with this argument is that the Dean campaign looks ever less like a political revolution and ever more like an internet bubble. The armies of young Deaniacs who marched through the frosts of Iowa may well have alienated rank-and-file Democrats. (Many Iowans have little time for the chardonnay wing of their party, let alone the pierced-nipple wing.) Mr Kerry, a no-less-preppie figure in many ways,

carefully surrounds himself not with college-educated idealists but with embodiments of grizzled masculinity such as firefighters and Vietnam vets.

There is also more than a whiff of old-fashioned money politics about the Dean campaign. At the height of the Dean bubble, people were puzzled by his campaign's enthusiasm for lavishing millions on television advertising, not just in key states such as Iowa and New Hampshire but also in Washington state and even Texas. Now it turns out that Mr Dean's former campaign manager, Joe Trippi, was also a partner in a firm that received handsome commissions for all this advertising. The *Washington Post* suggests that, by the end of January, Mr Trippi's company may have made some $700,000 from commissions.

So all the stuff about internet-enabled idealism is overdone. The proper place to look for Mr Dean's contribution to the Democratic revival is not so much in the machinery of politics as in the psychology. In retrospect, Mr Dean's great contribution to the Democratic Party was that he succeeded in providing it with both a cheerleader and a safety valve.

Before the Dean boom the Democrats were beginning to look like a permanent minority party in the making: too timid to do anything but go along with the White House's grand schemes for eliminating taxation or democratising the Middle East. Mr Dean's mad-as-hell willingness to go for the Republican establishment proved that there was more to be gained from confrontation than from compromise. He spoke out for the millions of Americans who feel bullied by the brutal right: bullied by the Republican politicians who decry wasteful spending on welfare while stuffing their own supporters with pork, bullied by conservative talk-show hosts who claim to be “fair and balanced” while advancing a rigidly partisan agenda. Mr Dean was like the child who stands up to the school bully and gives him a bloody nose. It is thanks to him, more than anybody else, that the Democratic base is now as energised and optimistic as it was passive and pessimistic back in 2002.

Sometimes howling dervishes can be useful

But Mr Dean did more than this. In retrospect, he allowed his party an exquisitely well-timed space to vent its hatred for George Bush. In its former powerless and angry form, Bush-hatred was dragging much of the Democratic Party to the land occupied by blowhards and conspiracy-theorists such as Michael Moore and now, alas, Kevin Phillips. The grass roots were in danger of being taken over by people who think Mr Bush is more of a problem than Osama bin Laden and Saddam Hussein. The Dean insurgency allowed the party to get a good deal of this nonsense out of its system before, in the nick of time, settling down to the serious business of choosing a candidate. The strange sound that you heard coming from Mr Dean's mouth back in Iowa was the final session of this scream therapy—the death-rattle of Bush-hatred in its most self-destructive form.

It would be an exaggeration to say that Mr Dean will be missed: he became both inept and arrogant. But the Dean insurgency has nevertheless left the Democratic Party in a much healthier state than it was just a few months ago. Rank-and-file Democrats are energised without being foam-flecked. Establishment Democrats have a new spring in their step. And Bush-haters have realised that revenge is a dish best eaten cold.

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Haiti's violence

Hispaniola adrift

Feb 12th 2004 | MIAMI
From The Economist print edition

EPA

Haiti stands on the brink of civil war. Next door, the Dominican Republic rues a destructive president (see report)

Get article background

GONAÏVES, a port city of 200,000 people, has long held political significance for Haitians. It was there that rebel slaves declared the independence of the world's first black republic on January 1st 1804. In 1985, the city's students began the popular uprising that led to the fall of the Duvalier family dictatorship. Now Gonaïves may again be poised to make a kind of history. On February 5th, armed rebels, including some notorious miscreants, seized the city, triggering a wider uprising against the deeply unpopular president, Jean-Bertrand Aristide.

The rebels staged a surprise assault on the main police station, forcing the heavily-armed officers to flee and torching the building. When 150 police reinforcements returned in trucks two days later, they were ambushed and forced to flee a second time. As *The Economist* went to press, the city was still in rebel hands.

The capture of Gonaïves marks a new chapter in Haiti's political crisis, after two months of often violent opposition street protests in the capital, Port-au-Prince. The uprising quickly spread. The government retook at least two important towns—Grand Goâve and St Marc—but police were reported to have abandoned half-a-dozen others. “There is a general uprising of the people,” says Jean-Claude Bajeux, a veteran human-rights activist.

With around 40 killed this week, outsiders are becoming concerned. “Reaching a political settlement will require some fairly thorough changes in the way Haiti is governed,” America's State Department said on February 10th. An official said that this could involve the departure of Mr Aristide, a former Jesuit priest and left-winger who was once hugely popular. But the president is defiant. Interviewed live on CNN this week as the network showed footage of the chaos in Gonaïves, he was asked what was his main achievement. “Peace, peace, peace,” he said.

Gangs of pro-Aristide thugs were supporting the police against the rebels. In Cap-Haïtien, the second city, these militias were reported to have driven off an attempt by rebels to seize a suburb. They shot at least two opposition leaders and set fire to a dozen houses.

Despite such dubious victories, Mr Aristide still seems to face the slow but steady collapse of his rule. If it remains in rebel hands, Gonaïves would be a big loss. It is strategically located on the main road between Port-au-Prince and Cap-Haïtien. “We shall work to form a Republic of the Great North,” said Winter Etienne, the city's self-appointed new mayor, recalling the independence struggle when Haiti was divided between rival kingdoms. That would cut the capital off from the Artibonite Valley, Haiti's most fertile rice-producing region. The World Food Programme, which has its main distribution point in Gonaïves, has given warning that the violence is disrupting its efforts to get food to the poorest rural areas.

Officials recognise that they underestimated the rebels. They now plan to lay siege to Gonaïves. But Haiti, with a population of 7.5m, has no more than 5,000 police, most of them poorly equipped. The army was disbanded in 1994, when American troops invaded to restore Mr Aristide to power, reversing a 1991 military coup. The police alone cannot re-establish order, says Yvon Neptune, the prime minister.

Mr Aristide also seems to have underestimated the groundswell of anti-government feeling. This stems from a dispute over alleged fraud in legislative elections in 2000, which led to the opposition boycotting the presidential poll. Discontent is amplified by corruption and economic stagnation. Some 80% of Haitians live in poverty, and few have proper jobs.

Many of those who now oppose the president are former members of the grassroots Organisations Populaires (OP), who first swept the former slum priest and his Lavalas (Cleansing) movement to power in 1990. Many unions and peasant groups that belonged to the OP have turned against Mr Aristide, and are calling for his resignation.

The danger now is that violent confrontation turns to civil war. In Port-au-Prince rival gangs have staged dozens of killings in recent months. In the Cité Soleil slum, another five bodies showed up at the weekend, reportedly former Aristide loyalists who had changed sides. Some of the killers, too, are no longer loyal. Some of the leaders of the “resistance” are former members of the so-called Cannibal Army of enforcers who were armed by the government. They turned against it after the murder last September of their leader, Amiot Metayer, an OP activist. “We consider Aristide to be like a wolf who devours his children,” said Butheur Metayer, the dead man's brother, who has appointed himself police chief in Gonaïves.

The opposition Democratic Platform, made up of political parties, students, civic and business groups, has condemned the violence. But has it made a tacit alliance with the gunmen to remove Mr Aristide? Caribbean leaders who last month began an effort to mediate were due to hold talks with both sides to try to find a way to stop the violence. They will need to act fast.

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The Dominican Republic

Let them play baseball

Feb 12th 2004 | SANTO DOMINGO
From The Economist print edition

A president's desperate devices

AFP

Mejía looks for a home run

AT THE recent opening of the Caribbean baseball tournament, President Hipólito Mejía eagerly threw the first pitch. His country's team, replete with stars from the American major leagues, duly won its opening game. But its success did not rub off on Mr Mejía: a section of the crowd started booing him.

Having presided over an economic collapse in what was until recently a Caribbean success story, Mr Mejía is deeply unpopular. And yet he has manoeuvred to overturn a ban on re-election so that he can stand for a second term in a ballot due in May. Apart from baseball, he has no good news to offer his countrymen. Polls give Leonel Fernández, a former president and liberal reformer, 65% support; Mr Mejía trails with less than 20%.

Dominicans are in an ugly mood. Last month, at least six people were killed and 60 injured during a two-day strike to protest soaring inflation. The peso has slumped from 34 to the dollar in December to 48 this week. Restaurant menus have to be updated regularly. To complete the gloom, electricity blackouts are frequent. Last year, the government took over the electricity distributors, but is in arrears on its promise to pay their debts to generators.

Not all of these ills can be blamed on Mr Mejía. A booming tourist industry, and the thriving business being done by assembly plants in the country's free-trade zones, were damaged by a slowdown in the world economy just after he took office in 2000. But his government made things much worse with an over-generous $2.4 billion bail-out of depositors at Baninter, the third-largest commercial bank, which was bankrupted by fraud last April.

To fill the hole in its accounts, the government asked for help from the IMF, which offered a $657m loan. But this was then suspended because the Fund disapproved of the government's fiscal and electricity policies. The IMF's board renewed the loan on February 11th, but only $66m of it will be handed over before the election. At the Fund's behest, international experts are advising on banking and electricity reforms.

The president has been reckless in politics as well as economics. His quest for a second term has split his centre-left Democratic Revolutionary Party. The party convention that nominated him in January as its presidential candidate was boycotted by many delegates, and several of his own ministers oppose his re-election. His supporters are now trying to prevent a permanent fracture by changing the electoral law so that each party will be allowed to field several candidates. But this change is probably unconstitutional.

Mr Mejía is also resorting to demagoguery. He railed at his party's convention against the rich and the “oligarchies”, blaming them for the country's poverty. Pedro Silverio, of the Catholic University in Santo Domingo, says this smacks of a desperate attempt “to create social conflicts and hope something turns up.” Rather than risk the ire of Dominicans as a private citizen, it seems, Mr Mejía has concluded that he is safest in the palace. Dominicans worry about how much more damage he might inflict.

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Race in Brazil

Black brainpower

Feb 12th 2004 | SAO PAULO
From The Economist print edition

A university challenge to racism

THINKING he was a thief, police shot a young black dentist who had just dropped his girlfriend off at São Paulo's international airport on February 3rd. That killing haunted a celebration which took place a week later, the opening of Brazil's first college catering mainly to blacks. It “shows the dimension” of the exclusion of black Brazilians from a society that until recently considered itself unusually tolerant, says José Vicente, president of Afrobras, a group that is the moving force behind the school.

Race and racism are both slippery ideas in Brazil. Slavery lasted until 1888 but there was no formal segregation thereafter. Nearly half the population is non-white if you count people who describe themselves as *preto* (black) or as *pardo* (brown), as activists insist you should. Both groups (together known as *negros*) are poorer than other Brazilians, less well-educated and paid less for the same work. But this gap has inspired nothing comparable to the United States' civil-rights movement or South Africa's anti-apartheid struggle.

The new school, called Zumbi dos Palmares after a heroic 17th century leader of fugitive slaves, aims to fill the vacuum. It is starting modestly, as a “faculty”, not a full-fledged university. Its 200 students (five white, though the college wanted many more) are studying management, with a view to finding jobs in the growing markets for “Afro-ethnic” products. Mr Vicente sees them as the nucleus of a new elite that will encourage other blacks to study, earn and lead the struggle for equal rights.

In fact, mainstream universities are already contributing to that elite. Activists claim that just 2% of students at public universities, the most prestigious, are black or brown. But a third of those taking the final exam last year described themselves thus. That number falls to 15% in high-status courses such as medicine and law; to raise it, the government is thinking of imposing racial quotas.

Mr Vicente is not willing to wait. The Zumbi dos Palmares faculty marks “one of the few times in history *negros* in Brazil are acting as agents of change,” he says. Its students seem convinced. Ignez Bacelar was initially cool to the idea. But she says that most universities are “for young whites with good incomes.” She is happy to study with people who understand the obstacles. Just as important, the subsidised tuition—at 240 reais ($80) a month, less than half the going rate for private universities—will allow her to become the first graduate in her family.

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Quebec's government

Charest's fading bloom

Feb 12th 2004 | MONTREAL
From The Economist print edition

A reform drive bogs down

NOWHERE in North America is more highly taxed, or more unionised, than Quebec. Jean Charest and his provincial Liberals won an election there last April on a promise to cut taxes while also improving services and eliminating the budget deficit. Not surprisingly, he is finding the going heavy. In one poll last month, two-thirds of respondents were unhappy with his government. Another found that support for Quebec's secession from Canada has surged to 47%, its highest level in years.

So Mr Charest, a firm federalist, has announced a tactical retreat. Rather than simply forge ahead with the privatisation, outsourcing and public-private partnerships that are the levers of his promised "re-engineering" of government, Mr Charest now says he will hold public forums to consult the people on the changes. The tax cuts and government streamlining will still go ahead, Mr Charest insists. "Our objective is to bring taxes down to the Canadian average during our mandate," he told *The Economist*. But Quebeckers will first have a chance to talk it all over.

They may welcome this show of humility. Before Christmas, Mr Charest rammed through several controversial bills by curtailing parliamentary debate. That is a common, if clumsy, device in Canada. But the opposition Parti Québécois and the labour unions objected. When the premier protested that he had a mandate to reform the labour code (to allow outsourcing), increase day-care rates and streamline collective bargaining, this was seen as highhanded.

Mr Charest's initial strategy was to get the nasty business over quickly, well before the next election. But has he miscalculated the unions' resistance? There is talk of a general strike, though it may not happen. The unions are close to the Parti Québécois, which governed the province from 1994 until last year. The attack on them may have given a boost to the secessionist cause. Having soft-pedalled the independence issue, the PQ's leader, Bernard Landry, the former premier, is once again promising a quick referendum on it should his party take power again.

Mr Charest has plenty of time to win back support. One way he will do this is to work constructively with the federal government and its new prime minister, Paul Martin, rather than trying to prove that Canadian federalism is a failure as the PQ was wont to do. Mr Charest and Mr Martin are friends. That may help the premier extract more federal money.

But it could also be a liability: Canada's auditor-general this week blasted the federal government for "blatant misuse" of public money over a scheme to promote federalism in Quebec approved when Mr Martin was finance minister. Anyway, Quebeckers like their politicians to put the province first. Mr Charest made his name in federal politics; many in the province still view him with suspicion as a result. He shouldn't need any public forums to tell him that.

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Colombia and Europe

Battling for the moral high ground

Feb 12th 2004 | BOGOTÁ
From The Economist print edition

Uribe tackles his European critics

Reuters

The MEPs know better than Colombians

ALVARO URIBE has never been one to shrink from confronting his opponents. So it was on a trip to Europe this week. In 18 months as president, Mr Uribe has done much to bring greater security to Colombia, long wracked by the violence of the FARC and ELN guerrilla groups and of right-wing paramilitaries. Colombians are impressed: polls say that 80% of them approve of their president. But Mr Uribe's critics, of whom there are many in the European Parliament, want the EU to halt its aid to Colombia. They argue that security is coming at the expense of human rights.

In a speech to the parliament, Mr Uribe gave a vigorous, if rambling, defence of Colombian democracy and of his policies. “To take on 30,000 terrorists is not easy,” he said, arguing that it is they, not the government, who are the great violator of human rights.

Mr Uribe is entitled to feel some irritation. Albeit unwittingly, European citizens who buy illicit drugs help to finance Colombia's armed groups. In return, the EU has offered Colombia a miserly €105m ($133m) in aid over four years. Moreover, the European Parliament condemns American military aid to Colombia at the same time as it calls for tougher Colombian military action against the right-wing paramilitaries.

On the other hand, Mr Uribe's actions have aroused some legitimate suspicions. His government pushed through an anti-terrorism law granting powers of arrest and interrogation to the army. That was contrary to recommendations by the UN Human Rights Office, which Colombia had promised European aid donors it would implement. And a proposed peace deal with the paramilitaries, who are reported to have killed 600 people since declaring a “ceasefire” in December 2002, seems to involve their leaders escaping the punishment that is their due.

Last month, César Gaviria, the secretary-general of the Organisation of American States, offered to monitor this sweetheart deal. Following the objection of some OAS members, the monitors will now have regard to human rights as well. A similar compromise is likely with Europe. Chris Patten, the EU foreign-affairs commissioner, said this week that Europe will support any democratically elected government in its fight against terror. Though the EU has not offered the free-trade deal Colombia wants, the president said he won a promise to renew existing trade preferences until 2016. Even so, Europeans will continue to press Mr Uribe to live up to his promises on human rights.

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Correction: Nicanor Duarte

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We were wrong when we said that when Nicanor Duarte met George Bush he became “the first Paraguayan leader to hold a tête-a-tête with an American president” (“Winning respect”, January 10th). General Alfredo Stroessner, Paraguay's dictator from 1954 to 1989, held talks with Lyndon Johnson in Washington DC in 1968. Sorry.

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China

Golden boys and girls

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ImageChina

Young Chinese have become profligate. And they like their brands

Get article background

WU YAN, a 24-year-old office worker at a state-owned bank in Beijing, is a good example of the kind of Chinese consumer that foreign companies are beginning to drool over. She belongs to the first cohort of Chinese youth whose formative years have been spent amid rapid economic growth and an explosion of commercialism. The privations and turmoil of the Maoist era are merely a part of family lore. She got married last year but wants to put off having a baby until she is 30 or so. She lives with her parents, which frees all the more money to spend on luxuries. And unlike members of her parents' generation, she is not afraid to borrow.

Members of Miss Wu's generation are the first group of only children—born after the introduction of China's one-child-per-couple policy in the late 1970s—to acquire big spending power. Their parents' resources don't have to be shared among siblings, which gives them even more to draw on. Miss Wu and her husband bought a made-in-China Citroën Fukang last year, assisted by a gift of nearly 30,000 yuan ($3,600) from her and her husband's parents, and a five-year bank loan. In the last year they have also bought a Nokia mobile phone and an IBM laptop computer.

Miss Wu belongs to an affluent segment of the population in one of China's most prosperous cities. Much of rural China is still mired in poverty and many inland cities are several years behind Beijing's level of wealth. Yet Jeff Smith, who heads the China operations of Hill & Knowlton, a public-relations firm, believes the amount being spent by Chinese in their late teens and early 20s is of less importance than the way they are spending. China, he says, is seeing the emergence of a “different kind of Chinese consumer” with a strong awareness of fashion, brands and quality.

At the forefront of this change are university graduates, who usually get far better-paid jobs than those without tertiary education. This group has been expanding rapidly in the last five years thanks to government efforts to increase enrolment. This year, 2.8m will graduate from institutions of higher education in China, more than twice as many as in 2002, and the number is expected to rise to 3.2m next year. The upsurge has made it more difficult for graduates to find good jobs. But once they do, research suggests that graduates are quick to splash out. Steve Bale, who is national planning director

for China of BatesAsia, an advertising firm, says that they are likely within three to five months to spend an entire month's salary on upgrading their mobile telephone—a crucial status symbol for the urban young.

Although China has a very high savings rate, well-educated young people are becoming far less inclined to save, given what they see as their long-term earning potential. The despondency of educated Chinese youth in the wake of the crushing of the Tiananmen Square protests nearly 15 years ago has given way to enormous optimism. Mr Bale says a way to success for foreign brands is to appeal to young people and their sense of being on “the Chinese express, this incredibly exciting fast-moving locomotive”.

The media make much of what they suppose to be the spoilt and profligate nature of these only children turned adults. One report, for example, commented on what it said was their habit of throwing away soiled underwear rather than washing it. Some only children have indeed grown up enjoying enormous material comforts compared with their parents' generation. Victor Yuan of Horizon Research, a Chinese market-research company, says many teenagers in big cities can expect cash handouts from relatives and family friends during the lunar new year festival of 1,000-2,000 yuan each—equivalent to more than a month's wages for the average urban worker. This gives them considerable spending autonomy.

In addition, advertisers believe young people are exerting strong influence over the spending habits of their elders. Many are far better educated than their parents, whose studies were disrupted by the political campaigns of Chairman Mao. Their ability to persuade their parents to adopt certain brands extends well into their adult life given the inclination of young Chinese to continue living with their parents at least until marriage.

Hung Huang, publisher of the Chinese version of *Seventeen*, an American consumer magazine aimed at young women, says that what is striking about this new consumer group is its similarity to those in developed countries. “The difference really comes from their consumption pattern compared with the generation before them in China rather than other societies,” she says. “They are like any teenagers that you would find in a rich suburb of Chicago or St Louis. They want the latest model, they want their computer, they want their camcorder, they want cool Swatches.”

This should be good news for manufacturers of brand-name consumer goods. But today's high-spending youth will not be on the gravy train forever. In another couple of decades these only children will have to worry about looking after a bulging population of elderly citizens. Miss Wu has already given it some thought. One day, she says, they might buy an apartment for her and her husband's parents, with a servant for each elderly couple.

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Pakistan, America and the bomb

Spreading the word

Feb 12th 2004 | LAHORE
From The Economist print edition

What is to stop it happening again?

“IS PAKISTAN important, or the hero important? Pakistan is important.” Thus General Pervez Musharraf, explaining why he forced Abdul Qadeer Khan, the father of Pakistan's bomb, to make a public apology for covertly selling nuclear secrets to Iran, Libya and North Korea. But that is far from the end of the story. Were there other buyers? How could Mr Khan get up to all this without official knowledge? And what light does the subsequent pardon for Mr Khan cast on General Musharraf's assurances that nothing like this will ever happen in Pakistan again?

At home, street demonstrations organised by Jamaat-e-Islami and other *jihadi* organisations against the “shoddy treatment” of such “scientist-heroes” have drawn only limited numbers. A national strike on February 6th called by the religious parties petered out by midday. Most Pakistanis seem to think that General Musharraf was right to pardon Mr Khan.

Reuters

Khan: the tip of an iceberg

Yet there is much unhappiness that he and Pakistan are being censured at all. A cartoon on the editorial page of a national daily asked: “What is nuclear proliferation?” and concluded that, when a non-Muslim country helps another non-Muslim country's nuclear programme, it isn't proliferation; but when Muslim countries help each other, it is (though how North Korea fits the picture is unclear).

But such shoulder-shrugging in Pakistan adds to outsiders' alarm. Never having signed the Nuclear Non-Proliferation Treaty (NPT), Pakistan has never been bound by its rules forbidding the passing on of weapons know-how. And its export controls are so full of loopholes that it is not even clear if what Mr Khan did was against national law either.

Worries like these this week prompted America's president, George Bush, to call on all governments to tighten up their export-control laws and to co-operate in the proliferation security initiative, an American-inspired venture that aims to bust proliferation networks like Mr Khan's by intercepting weapons-related shipments. More controversially, Mr Bush also called on members of the Nuclear Suppliers Group, an informal grouping that seeks to restrict trade in sensitive nuclear materials, to refuse to sell the means for enriching uranium or making plutonium (both useable in bombs) to countries that do not yet have the technology, even if they have signed the NPT. Mr Bush proposed that safeguards be more closely scrutinised too.

Publicly, America has so far accepted General Musharraf's claim that no Pakistani government was involved in Mr Khan's nuclear transfers. All the same, many Pakistanis are convinced that Mr Khan has been used as a scapegoat to shield the army and intelligence hierarchy from the proliferation scandal. General Musharraf claims that until Pakistan's nuclear tests in 1998, the entire covert weapons programme was under the control of a small group: the president of the day, the army chief and the scientists. Since Pakistan had to find its materials and technology on the black market too, few questions were asked of the scientists. After 1998, when he became first army chief, then president, the general says he personally ordered scrutiny to be tightened, and suspicion started to fall on Mr Khan and his close associates (though in fact America had been complaining about their activities for years, to no avail).

General Musharraf may be doing more than covering his own back. Cornered and put on trial, Mr Khan might have implicated more than just his close colleagues. Any hint that Pakistan's government or armed

forces was in on the proliferation plot, acknowledges General Musharraf, could lead to UN sanctions on an already rickety economy.

But saving Pakistan's blushes may not help the general much at home. Religious parties have accused him of being America's stooge for swiftly abandoning the Taliban in Afghanistan. His recent advocacy of a peace dialogue with India, also at the urging of America, but others too, has incurred the wrath of the *jihadi* parties bent on fomenting insurgency in Kashmir. Despite his repeated assurances that he will never allow outside inspection or “rollback” of Pakistan's nuclear deterrent, his co-operation with the International Atomic Energy Agency in its investigation of Mr Khan's overseas exploits has further undermined his “nationalist” credentials.

Most Pakistanis are anyway convinced that, once America has no further need of their help in the war against terror, it will again single out Pakistan as a “rogue” state . A statement by America's secretary of state, Colin Powell, that “General Musharraf is the right man, at the right place, at the right time” is taken as proof of America's short-termism. Much depends on what else is now uncovered. General Musharraf had indicated that Mr Khan's pardon was unconditional, but Pakistan's foreign ministry now says that it covers only his confessions made so far. Pakistan's nuclear file is not about to be closed.

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Philippines

Razzle-dazzle

Feb 12th 2004 | CAVINTI AND MANILA
From The Economist print edition

The presidential campaign kicks off

Get article background

FILIPINOS are used to star-studded election rallies, but the campaign launch at Manila's Cuneta Astrodome on February 10th broke all the records for razzle-dazzle. Amid swirling dry ice and roving spotlights, a famous troupe called The Sex Bomb Dancers gyrated and squirmed; the Philippines' best-known comedian performed a stand-up routine, and assorted movie and television stars rallied the cheering crowd of thousands. The biggest celebrity present was the candidate himself: Fernando Poe Junior, “Da King” of Philippine cinema and the man to beat in the presidential election on May 10th.

Filipinos are also used to voting for film stars, but Mr Poe provokes new heights of enthusiasm. He is far more famous than Joseph Estrada, the matinee idol who won the last presidential election by a landslide. What's more, Mr Estrada, who was unseated by mass demonstrations halfway through his six-year term, has told his resentful supporters to support Mr Poe. No wonder the polls put Mr Poe nine points clear of his closest rival, Gloria Arroyo, the former vice-president who took over from Mr Estrada.

No wonder, too, that Mrs Arroyo is trying to inject a little glamour into her own presidential bid. Like Mr Poe, she has recruited a famous news anchor as her running mate. Two more film stars are running for senator on her party's ticket, as is a basketball champion. She has named the whole slate K-4, a reference to a wildly popular band. Yet these icons only managed to pack a few hundred supporters into the church in the small town of Cavinti where Mrs Arroyo launched her election campaign. The event was as underwhelming and chaotic as her three years in office have been. A huge traffic jam snarled the road to the venue, forcing various dignitaries to abandon their cars and rush onwards on foot. Mrs Arroyo seemed distant and stiff with the crowd of onlookers, several of whom confessed their intention to vote for Mr Poe. Others got bored and drifted off in the middle of the event.

But celebrity appeal is not the only factor in the race. Mr Poe is a high-school drop-out who had worked as an actor and producer all his life until he turned to politics last year. Unlike Mr Estrada, who served as a mayor, senator and vice president, he has never held any elected office. He spoke for only 12 minutes during his three-hour launch rally, and that was his longest speech to date. He has not yet announced any policies, short of platitudes about ending poverty, injustice and corruption. As voters get to know more about his political views—or lack of them—they might yet shy away from him.

The prospect of a President Poe is certainly rattling the markets. Last week, the peso dropped to a record low against the dollar. A survey of members of the Makati Business Club, a lobbying group, did not turn up a single Poe supporter. Many worry about his connections with Mr Estrada, under whom the deficit boomed and corruption thrived.

In any case, Mr Poe might have to drop out of the race altogether. The constitution says that only a “natural born citizen” can become president. Mr Poe's father was Filipino, which would normally entitle him to Philippine citizenship, even though his mother was American. But documents supplied by Mr Poe's own lawyers suggest that he was born before his parents married, and his detractors argue that this made him an American citizen at birth. Having failed to convince the Election Commission, they are now petitioning the Supreme Court to rule on the issue. It's going to be a long, tumultuous campaign.

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Sri Lanka

Here we go again

Feb 12th 2004 | DELHI
From The Economist print edition

Playing with the peace process

AP

Prime minister and president: loving to hate each other

Get article background

OPINION polls, the press, business leaders and political analysts in Sri Lanka are in rare consensus on two points: peace is popular and elections are not. Yet the third general election in less than four years will be held on April 2nd. On February 7th, Chandrika Kumaratunga used her powers as president to announce the dissolution of parliament and, a few days later, to sack 39 junior ministers to prevent them using their jobs for electoral advantage. Worse even than the prospect of another divisive, expensive and probably violent electoral campaign, is the risk that it might jeopardise chances of a lasting end to the country's 20-year civil war.

A ceasefire has largely held for nearly two years between the government in Colombo, dominated by the island's Sinhalese majority, and the Liberation Tigers of Tamil Eelam, who have been fighting for a Tamil homeland in the north and east. But managing the peace process has pitted the president, who is also leader of the parliamentary opposition, against Ranil Wickremesinghe, the prime minister. In November, just after the Tigers had at last tabled their initial negotiating position, the president used her prerogatives to sack Mr Wickremesinghe's ministers of defence, interior and information, and assumed their responsibilities.

The “cohabitation” of the two leaders had never been smooth. The silver lining many saw in this presidential coup was that it would at least force them to co-operate. It has not. The prime minister demanded the full restitution of the three ministers, though he had seemed to be softening towards an offer of power-sharing from Mrs Kumaratunga. What encouraged her to dissolve parliament was the formation in January of the “United People's Freedom Alliance” (UPFA), an electoral pact between her Sri Lanka Freedom Party and the Janatha Vimukthi Peramuna (JVP), a party that mixes Marxist economics with Sinhalese chauvinism.

This has improved Mrs Kumaratunga's chances of winning a parliamentary majority. But the link with the JVP, a staunch opponent of any significant devolution of power to the Tamil minority, has alarmed the Tigers, as well as neutral observers. At the very least, this will lead to inflammatory campaign rhetoric. It has already achieved the remarkable feat of making the Tigers—a group with a brutal record of terrorism and oppression—appear statesmanlike in their professed readiness to talk to any government that comes

to power.

The UPFA is far from assured of victory. The opposing alliance led by Mr Wickremesinghe is credited with progress towards peace, as well as with an improvement in economic prospects. The true peace dividend will be felt only when the $4.5 billion-worth of promised foreign assistance starts to flow. But that is conditional on continued movement towards peace, so may be stalled even if Mr Wickremesinghe is returned to power.

With the president still in office, such a result would bring the rivals back to square one. Jehan Perera, an activist with the National Peace Council, an independent conflict-resolution organisation, says this may be the best hope for the country. After the two sides have battered each other into stalemate, he says, the two leaders may realise they cannot govern without the support of the other.

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Australia

The rising star

Feb 12th 2004 | SYDNEY
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Labor is making a comeback

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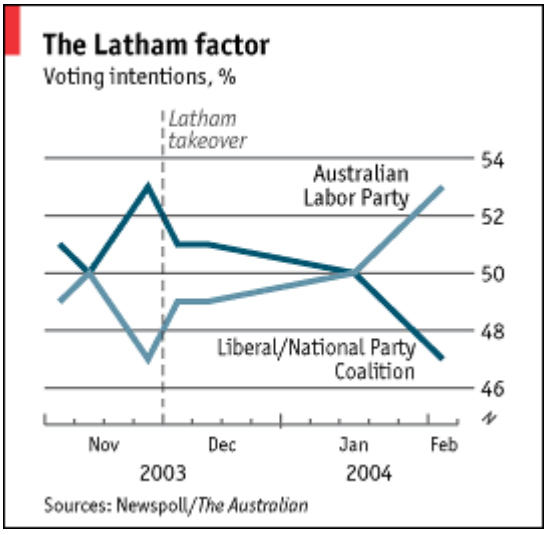

IN A surprisingly short time, Mark Latham has achieved what many had written off as an impossible task. Just before he was elected leader of Australia's opposition Labor Party two months ago, Labor was staring at a fourth successive defeat by the conservative coalition government, led by John Howard, at an election due later this year. But an opinion poll published on February 10th put Labor in a winning position for the first time since the last election in 2001. The "Latham factor" has galvanised politics and got the coalition worried.

The same day as the opinion poll, Mr Howard's government sought to reclaim the initiative by trumpeting the conclusion of a free-trade deal with the United States, after almost a year's negotiations (see article). This was ground on which Mr Howard has staked his claim to strong leadership, by meshing Australia's foreign, security and trade policies closer than ever with America. But critics saw the deal as scant reward for Australia having been one of the few countries to support the Bush administration with troops in the Iraq war. As soon as the deal was announced Mr Latham sought to exploit the gaps in it.

Under the deal, most Australian manufacturers will have early open access to the American market. But beef and dairy farmers will have to wait for tariffs to be lifted gradually. And Australia's sugar farmers were excluded from the deal altogether. America's farmers, on the other hand, will have immediate duty-free access to Australia for all goods.

Mr Howard has defended the deal as a "once-in-a-generation opportunity". Mr Latham retorted that it had undermined Australia's free-trade credentials: "Quite frankly, our farmers have been dudded." There were also disputes about the government's earlier claim that the deal could benefit Australia by A$4 billion ($3.1 billion) a year. But the agreement must now be approved by parliament, where Labor and two minor parties, who make up the majority in the upper house, could vote it down.

Mr Latham will be eyeing disgruntled sugar farmers from coalition-held constituencies in northern Queensland, a state where Labor must win seats to form a government. His success in turning around the party's opinion-poll fortunes seems to hang on his youth (at 42, he is Mr Howard's junior by 22 years) and his capacity to communicate fresh ideas. He argues that the political contest will be determined by social values, not economic ones where both sides are largely indistinguishable. He has reached across Mr Howard's focus on foreign and security issues by proposing a domestic agenda that includes encouraging parents to read more to their children and ending the generous pension scheme for federal parliamentarians.

After eight years in power, Mr Howard seems at sea in working out how to deal with the new Labor leader. An early attempt by Mr Howard and his ministers to sink him in parliament—with attacks on the forthright language for which he was famous before he took over as leader—flopped badly. Mr Latham gave a hint of the populist approach he plans for the election campaign by making a bus tour of rural constituencies in New South Wales during the first week of February and speaking to packed public meetings. A landslide Labor victory in a Queensland state election on February 7th added more gloss. The federal election's timing is up to Mr Howard; much will depend on whether the Latham resonance

with voters becomes more than just a honeymoon.

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Human cloning

An embryonic development

Feb 12th 2004
From The Economist print edition

A big breakthrough from South Korea

Get article background

THERE have been several claims to have cloned humans over the past few years. Most have been bogus. But the announcement made this week by Woo Suk Hwang, of Seoul National University in South Korea, and his colleagues, is serious. It is the first to achieve the accolade of publication in a peer-reviewed scientific journal. Dr Hwang's work appears in *Science*.

The terminology of human development has become slippery over the past few years, in the hands of both “life-begins-at-conception” propagandists who want to stop this sort of research, and publicity-seeking scientists who have claimed more than they have really achieved. What Dr Hwang and his team have created is not what developmental biologists would normally refer to as an embryo (nor does Dr Hwang claim it is).

But it is a genuine scientific advance. South Korea's researchers have taken egg cells from a number of volunteer women, removed the nuclei from those cells (which contain only half of the genetic complement required to make a human being, since the other half is provided by the sperm), and replaced each nucleus with one taken from one of the volunteer's body cells (which contains a full genetic complement). Given a suitable chemical kick-start, such re-nucleated cells will begin dividing as though they were eggs that had been fertilised in the more traditional manner. Since they have all of the mother's genes, they count as clones.

Then the team cultured the dividing eggs until they had formed structures called blastocysts, with a few dozen cells each. This is the significant advance. At this stage the structure, though still just a featureless ball of cells, has started to differentiate into the body's three basic cell types (known as endoderm, mesoderm and ectoderm). The researchers were able to extract cells from some of their blastocysts, and grow tissues containing all three cell types.

These are so-called stem cells, which can be directed to form a wide variety of the specialised cells from which organs are built. That, not the creation of new human beings, is the stated reason for this sort of research, since specialised cells made this way might be used to replace the cells lost in diseases such as Parkinson's and type-I diabetes. This process is known as therapeutic cloning.

No doubt Dr Hwang's scientific success will sharpen the debate between those who see therapeutic cloning as a potential force for good, and those who see it as a step on the road to a cloned human being. The latter should not worry too much yet. The road from a blastocyst to a baby is a long and complex one. Nevertheless the South Korean breakthrough makes it more urgent than ever that legislation is passed differentiating clearly between therapeutic and reproductive cloning—permitting the former and prohibiting the latter.

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Iraq

The spectre of a civil war

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From The Economist print edition

Reuters

The latest suicide-bombs make it harder for Iraqis to build a new country. Will they make peace—or fight each other?

TWO suicide car-bombers drove home the price of helping the United States in Iraq, when they rammed the recruitment offices of the country's new security forces, two days in a row. About 100 Iraqis were killed in all, the first lot outside a police station in Iskandariyah, just south of Baghdad, the second in sight of the American enclave that is supposed to be the safest zone in the heart of the capital.

Officials of the American-run Coalition Provisional Authority (CPA) and its Iraqi appointees in the Governing Council decry the attacks as the death rattle of a desperate force. Their enemies say they are just the beginning. *Jihadis* from outside Iraq, who are suspected of involvement, say they want not only to throw Americans out of Iraq but also to drive a path through to Saudi Arabia, whose ruling establishment they want to destroy too.

A 17-page letter addressed to al-Qaeda leaders, which the Americans say they recently got off a wanted Jordanian *jihadi*, lays out a plan to spark a civil war between Iraq's main sectarian groups by setting off bombs, such as this week's, and hoping that Iraq's communities will blame each other. With copious funds, the *jihadis* have apparently had little difficulty in finding local logistical help.

The insurgents say it is the Americans who are in retreat, by promising to abolish their ruling civilian arm, the CPA, in time to hand over power to Iraqis by July 1st. The Americans have also started to thin their military bulk, and have already cut the number of their encampments in Baghdad from 60 to 26. In due course the figure will fall to eight, with just one position inside the city and the rest on the edge.

Despite the coalition troops' reduced visibility, their January death toll was higher than in any previous month, bar November. The official line in Washington is that the attacks are “not a strategic threat”. But the persistence of violence is making it harder for the Americans to prepare a convincing exit strategy.

Much had been staked on the visit of a team led by the UN secretary-general's special envoy, Lakhdar Brahimi, who has been assessing what role the international body might play in a handover. After this week's carnage, with its echoes of the car-bomb that killed 22 of the UN's employees in Iraq last August, including its previous envoy, and forced the survivors to evacuate, Mr Brahimi may be wary of recommending the UN's return.

The attacks may also make it harder for the Americans to hand responsibility for Iraq's security to Iraqis.

This week they released detailed plans to cede control of Baghdad's security to the capital's 9,000 Iraqi police. A further 10,000, said the Americans, would be on the streets by next year.

After the latest attacks on the recruitment centres, that confident prediction may be in doubt. Four of the city's five deadliest bombs since Saddam Hussein was toppled last April have gone off in the past few weeks. To many in the centre of Baghdad, the American plan to withdraw to the edge of the city sounds similar to what has happened elsewhere in the disaffected “Sunni triangle” in the centre of Iraq, where American troops have vacated most of the town centres while failing to suppress the insurgency.

Plans for the civilian handover seem foggy too. With four months to go, Iraq's American ruler, Paul (“Jerry”) Bremer, still seems unsure who or what will succeed him. The Shia Muslims' most influential cleric, Grand Ayatollah Ali Sistani, has confounded Mr Bremer's plans for appointed caucuses to choose an interim national assembly, insisting instead on direct elections. The 25-strong, American-appointed Governing Council suggested to Mr Brahimi that it should fill the void and form a provisional government, without even the caucuses envisaged by Mr Bremer. Mr Brahimi met the ayatollah in Najaf on February 12th, in an effort to find common ground between the competing voices.

Where's that new Iraqi army?

Iraq's various armed factions are anyway doing more to bolster their own militias against the insurgents than to invest in a united Iraq. The Americans now rarely talk of disbanding party militias. On the contrary, after the bloody suicide-bomb attacks on the headquarters of the Kurds' two main parties a fortnight ago, the Kurds seem to be retreating from central politics to look after their own safety in their northern safe havens.

Elsewhere, Swhia militias are enforcing their authority. This week, the Iranian-trained Shia militia, known as the Badr corps, led by one of the Governing Council's nine presidents (who take turns to have a month in charge), opened a book fair in Baghdad to celebrate 25 years of Iran's Islamic Revolution and to laud the late Ayatollah Khomeini's theory of *wilayat al-faqih*, the “supreme cleric's” rule.

“After years of deprivation under Saddam, Iraqis are hungry for literature,” said a bookseller who introduced himself as a former political attaché at Iran's embassy in Beirut. Funded by Iran's “guidance” ministry and its embassy in Baghdad, the fair's hallway was festooned with murals portraying the early Muslim community's massacres of Jews and others.

The Iranians are bolstering Iraq's Shias with cash. With pilgrimages to their holy sites no longer shackled by Mr Hussein's secret police, a record 10,000 religious tourists a day, bringing in about $2 billion a year, are flocking across unguarded borders with Iran, turning Baghdad's few public parks into a sea of picnicking chadors. “Iran is reviving our economy,” says Abu Ali, who owns one of many restaurants to open in the shadow of Baghdad's Kathimiya shrine.

Whether Iraq's Shias privately think they can grab a monopoly of power is a matter of conjecture. Gertrude Bell, an administrator when Britain tried to run Iraq in the 1920s, warned of the ayatollahs' wiles. “A theocratic state”, she wrote in 1920, the year the ayatollahs revolted against the British, “is the very devil.”

The Yankees bowing to the beards

So far the Americans have been careful to respect Shia tradition, hailing Mr Sistani as a force for good, not of obscurantism. Meanwhile, Mr Sistani's supporters are still keeping up the pressure on the Americans for direct elections, which they presume they will win. The Shias have returned to the streets of Najaf, their holiest city and home to Mr Sistani, using a Shia pilgrimage known as al-Ghadir to chant more calls for elections.

For Mr Bremer, this is an unsettling foretaste of things to come. He has until the end of the month to promulgate his “basic law” setting out guidelines for the road towards a full-fledged election in 2005 under a popularly endorsed constitution. If Mr Sistani is still dissatisfied, he might use a much bigger pilgrimage, known as Ashoura, to press his case on the street.

As the clock ticks away at Mr Bremer's rule, many Iraqis are already taking the law into their own hands.

While liquor stores have proliferated since Mr Hussein's fall, so has the murder of their owners. Iraqi singers, journalists, doctors, engineers and intellectuals have all been murdered, quite possibly by extreme Islamists. The latest victim was Abdel Latif al-Miah, a witty head of the strategic-studies centre at one of Baghdad's universities.

When the Americans recently raised the siege of Aouj, a town in Mr Hussein's old heartland, many people in the town were terrified that the removal of barbed wire surrounding it would leave them exposed to the attacks of Shia militia. Thousands of Iraqi civilians have been killed since Mr Hussein's fall (see article).

So far, however, the violence and coercion have yet to take on a plainly sectarian character. Some of it is inspired by Islamism, and much of it is directed at the Americans. Since Iraq's sects are not yet turning on each other, this does not yet amount to a civil war. But fear of one is mounting.

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Iraq

The body count

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Still steadily going up

AMERICA'S top soldiers say that since nabbing Saddam Hussein in early December their army is slowly but surely beating the insurgents. The figures beg to differ. In January, rebels killed 51 coalition troops, the second highest toll since President Bush declared hostilities over in May. That averages 1.65 dead soldiers a day, up from 1.1 in September.

What the figures suggest is that the number of attacks is going up even more sharply, though the number of potential American targets is going down as their force is reduced in size. Moreover, the American and British armies have hived off a lot of dangerous jobs (driving military vehicles, for instance) to contract workers, mostly Asian, whose deaths rarely get listed. The many British security companies in Iraq tend to hire people from Nepal or Fiji to guard bases. Another British-run company, Erinys International, now deploys 14,000 Iraqis to guard Iraq's oil installations.

American soldiers' self-protective equipment and skills have improved, so it takes more attempted attacks to kill any. Take road-side bombs, “improvised explosive devices” or IEDs in mil-speak, the commonest type of attack. Since last summer, say American officials, insurgents have planted more than 3,452 of them, in anything from milk cartons to the carcasses of dogs. In December, 40% of them, they say, were detected before they blew up. In January, thanks to better detectors, around 60% were spotted.

So the insurgents need to launch more attacks, and sustain a bigger pool of fighters, to achieve the same lethal results. This they seem to be managing, at least in the “Sunni triangle” in central Iraq, though they may be fading elsewhere. The American army says that the number of daily attacks in which American soldiers came under fire has dropped from a peak of 40 in the autumn to an average of 23 in January, though the number of deaths rose.

But in a military bulletin on February 6th, some 73 attempted strikes in one day against coalition targets (including Iraqi helpers) were acknowledged: the insurgents had “become more sophisticated and may be co-ordinating their anti-coalition efforts, posing an even more significant threat” to soldiers and to civilians working in the ruling Coalition Provisional Authority.

The Americans publish no estimates of Iraqi deaths but say they expect the insurgents to kill more Iraqi civilians working with the coalition as the number of direct attacks on American military targets goes down. The American news agency, Associated Press, says that suicide-bombs, mostly in cars, have alone accounted for at least 261 Iraqi civilian fatalities so far this year. A British website called http://iraqbodycount.com, which opposed the war and collates official data, reckons that at least 8,229 Iraqi civilians have been killed since the Americans invaded on March 21st.

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Algeria

Fewer deaths, lower debt

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Better times for a battered country

IT IS a long time since Algerians had much to celebrate. Aside from savage and persistent civil strife that has claimed as many as 150,000 lives, plus deadly earthquakes and floods, the past two decades have seen a steady and steep fall in living standards. And last week, the football-crazed nation had to endure the further humiliation of a 3-1 loss to arch-rival Morocco.

Yet, unnoticed by the rest of the world or even by many Algerians, the country shows signs of emerging at last from the gloom. Ten years ago, Algeria's foreign debt was equivalent to 72% of GDP and servicing it soaked up a similar proportion of export revenue. It has since dropped to about one-third of that level. Foreign-exchange reserves are now a handsome $36 billion, triple the stock of four years ago. Deep structural flaws and massive unemployment suggest the economy has a long way to go before the benefits trickle down to ordinary citizens, but the Algerian economy is no longer the gaping black hole that sent investors fleeing a decade ago.

The turnaround owes something to hard work but as much to luck. The OPEC ministers who gathered in Algiers this week had more to be happy about than their return to the battered capital after an absence of 24 years. Prices for the oil and gas that earn Algeria 95% of its trade income have been high for three years in a row, and the near record levels of the past six months have produced windfalls all round. With a new agreement among the 11 cartel members to trim production, those prices look set to remain strong for the near term. And with its huge reserves of gas and vast uncharted oilfields, Algeria will be cashing in for years to come.

On the surface, Algeria's political life appears to be steadier, too. Since becoming president in 1999, Abdelaziz Bouteflika has engineered a partial reconciliation with the Islamists who revolted violently in 1992, following the army's abrogation of elections that would have brought them to power. He has passed some key economic reforms, allowed relatively free legislative elections, and tolerated a relatively free press. By exploiting the world's recent preoccupation with Islamist militancy, his vigorous diplomacy has done much to clear the country's reputation for abusing human rights. Presidential elections are now scheduled for April, and Mr Bouteflika appears likely to secure a further term.

Under the surface, however, things are not so rosy. Violence between the security forces and Islamist militants is not nearly as intense as at its peak in the mid-1990s but the blood still flows. Much of the countryside remains out of bounds, and travel at night even on main roads is risky. East of the capital, the Berber-dominated Kabylie region festers with discontent. Mass protests there three years ago fizzled when the government promised to grant greater language rights, local autonomy, and cash for developing the region. But a recent breakdown of talks with Berber tribal elders threatens to reignite the unrest.

Mr Bouteflika's many critics charge that he plans to win re-election by sleight of hand. Some declared candidates have already dropped out of the race, claiming that in traditional Algerian fashion the army's quiet backing of Mr Bouteflika has guaranteed him victory in advance. Yet many Algerians, perhaps even the silent majority, are so weary of their troubles that they are willing to let their president have his way. If only some of the oil money would land in their pockets, he might even be popular.

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Israel

Dear God

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From The Economist print edition

Address unknown

THE undeliverable mail section of the Israeli postal authority is conscientious. Every year, it delivers hundreds of letters addressed to God, though they usually contain very little information about the recipient's exact whereabouts. Letters come from every corner of the world, at all times of the year, but God's pen pals are most zealous before religious holidays such as Christmas or Yom Kippur.

Letters with a sender's address are sent back. The rest are delivered to the Western (“Wailing”) Wall in Jerusalem, care of the chief rabbi, to be inserted into the holy wall's cracks. If a writer appears not to be Jewish, his missive is forwarded to the ministry of religious affairs. “Our task is to deliver mail,” says Yitzhak Rabihiya, a postal spokesman.

Most letters contain praise, requests or complaints. “My beloved God, I cannot live without you,” writes a supplicant. “Everything is going wrong in my life,” complains another, “but you must know that already.” Children ask for better marks at school, the sick for good health, while lonely hearts pray for love. Some ask for help or forgiveness: “I cheated in my maths exam—and I have a big overdraft at the bank.” A teacher in Hong Kong sent a whole batch from 20 of his students.

Be patient, however. Mail to God is delivered only once or twice a year. If you're in a hurry, turn to Bezeq, Israel's telecoms firm, which has a dedicated fax line to God and has just opened an e-mail account for those wishing to speed up heavenly connections.

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South Africa

Running to stand still

Feb 12th 2004 | SOWETO
From The Economist print edition

Voters want jobs. Will they get them?

THABO MBEKI, South Africa's president, need not worry about losing his job. His party, the African National Congress (ANC), is expected to win some two-thirds of the votes at the country's third all-race election, which Mr Mbeki announced this week will be held on April 14th. Many other South Africans enjoy rather less job security, however, and this is the issue that will dominate the campaign.

Unemployment is South Africa's biggest single problem, opinion polls say, ahead of AIDS and crime. Asked what they want from their leaders, people in Soweto, a township of 3m people on the edge of Johannesburg, talk of little else. Stella Chauke, for example, who sells vegetables at a roadside stall, says she wants her “kids to be employed, that's all”. Andy Xolamatiwane, standing nearby, says he will not vote because he has no job.

However you measure it, South African unemployment is awful. The official rate, counting only those who are actively seeking work, was 31% in 2003, up two percentage points from the year before. By a broader measure, including all those available for work, whether or not they are actively seeking it, the rate is 42% and rising. The number of formal, salaried jobs has dipped even as the workforce has grown.

The ANC's rivals, small though they are, are making a lot of noise about this. Tony Leon of the Democratic Alliance, the largest of the minnows, predicts that inflexible labour laws passed by the ANC will push another 5m people out of work in the next five years.

Mr Mbeki says that jobs will multiply as the economy grows. Since 1994, when the ANC came to power, yearly growth has been a modest 2.8%, but the ANC argues that it has laid the foundations for faster growth by exposing firms to foreign competition, cutting inflation, paying off debts and putting public finances in order.

Mr Mbeki now promises to step a little harder on the accelerator. He says he will allow the budget deficit to widen next year, from 2.6% of GDP to 3.2%, to allow for more public spending on roads, ports and other capital projects. Opening Parliament on February 6th, he also promised to expand public works. His advisers talk of 1m people getting jobs this way.

South Africa is not as bad at making jobs as is popularly believed. Between 1996 and 2002, about 2m jobs were created. Skilled workers have found new opportunities in tourism, information technology and manufacturing. Unskilled workers have done less well, though the number of informal farm jobs has risen.

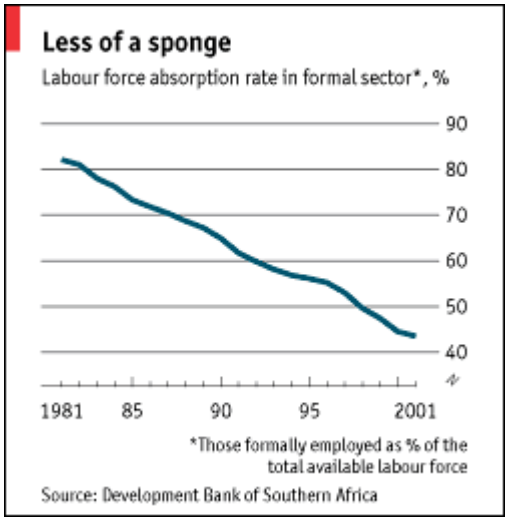
Not enough new ones have appeared, however, to mop up the swelling flood of would-be workers. South Africa's available labour force in 2001 was 16.4m people, 3.5m more than a decade earlier. Barely two-fifths can expect to find a formal job (see chart). Unofficially the labour supply is even bigger, including perhaps 2m illegal Zimbabweans.

South Africa may have an oversupply of unskilled workers, but at the same time the country is suffering from a shortage of skilled ones. One economist, Iraj Abedian, estimates there are between 300,000 and 500,000 unfilled posts for skilled workers in hospitals, clinics, schools, universities, financial firms and the civil service. Too few South Africans are skilled enough to take the

work: many school-leavers are innumerate or otherwise unemployable.

Further education reforms and more apprenticeships would help. A quicker and politically more daring solution would be to let skilled foreigners fill the gaps. Mr Abedian estimates that every dentist or banker employs five or six less-skilled workers, for example as drivers, receptionists or maids. If foreigners took all the high-skilled posts now available, that would create work for hundreds of thousands of unskilled South Africans too.

Reform of South Africa's tough immigration laws is unlikely while Mangosuthu Buthelezi, whose Inkatha Freedom Party is in an uneasy coalition with the ANC in the national government, remains home-affairs minister. Still, after the election Mr Mbeki will reshuffle his cabinet, and Mr Buthelezi said this week that he would probably not stay in government.



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Governance in Nigeria

Local politics, national habits

Feb 12th 2004 | AWKA
From The Economist print edition

The tribulations of a state governor

Get article background

RUNNING one of Nigeria's 36 states is never boring. Consider the story of Christian Ngige, who was elected governor of Anambra state, in the south-east of the country, last April. Shortly after being sworn in, he says he was manhandled into a hotel bathroom at gunpoint and forced to read out a resignation speech in front of a video camera. For this ordeal he blames associates of Christian Uba, a local businessman who, Mr Ngige claims, helped with his election campaign but was then disappointed not to be given more say in how the state was governed.

Mr Uba denies involvement in the governor's abduction, but makes no secret of his animosity. Last July, he filed a suit with Nigeria's Federal High Court and obtained an injunction suspending the governor from office, on the ground that he had signed a letter of resignation. The governor's aides say the letter was forged. A flurry of litigation has followed. Mr Ngige is still clinging to his job, but has reportedly been in and out of hiding to avoid the police, who have been instructed by a second court order to remove him from office. Mr Uba denies having sponsored this court order, but likes to give the impression that, in general, he calls the shots. To the local press, he has described himself as the “godfather of Anambra state”.

None of this makes it any easier for Mr Ngige to govern, which is a shame, as Anambra sorely needs a bit of good government. The main highway is so dilapidated that trucks careen down the wrong side of the road when their lane turns to dirt. Neighbourhoods and marketplaces are patrolled by armed vigilantes and few dare venture out after dark.

The election Mr Ngige won was marred, said European Union monitors, by “stuffing of ballot boxes, forgery of results, falsification of result sheets [and] ballot-box snatching”. (Mr Ngige says these allegations are for Nigerian election tribunals to judge.) But still, the embattled governor is popular. Under his predecessor, civil servants often went unpaid, teachers went on strike, courts closed and water stopped flowing as unpaid water-board employees stopped work. Although the state government was incapable of providing running water to most towns, it slapped a “mineral resources” tax on companies that drilled their own wells.

Corruption appears to have been widespread. According to a committee set up by Mr Ngige to look into the sale of government land near the market town of Onitsha, over 1,000 plots were sold without receipts. Often the same plot was sold to half a dozen buyers. Some later discovered that the boundaries of their property were in the River Niger.

Mr Ngige has become a local hero simply by paying government workers' salaries on time and paving a few roads. Market women have rallied behind him, staging demonstrations in which they buried effigies of Mr Uba.

Despite its problems, Anambra has a commercial buzz. A cluster of factories has sprung up among the mango groves of the town of Nnewi, churning out soap, car parts, vegetable oil and cables. Unusually for Nigeria, this boomlet owes nothing to government handouts. A few hours away, in Onitsha's market, 20,000 traders shift each day an estimated $3.5m worth of livestock, scrap metal and more or less anything else that anyone might want. More than 70 banks have flocked to oil Onitsha's constant deal-making. If the place were better governed, “Onitsha could be the Dubai of west Africa,” says a retired professor, Benedict Obumselu. If only.

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Spain

Breaking up is hard to do

Feb 12th 2004 | VITORIA
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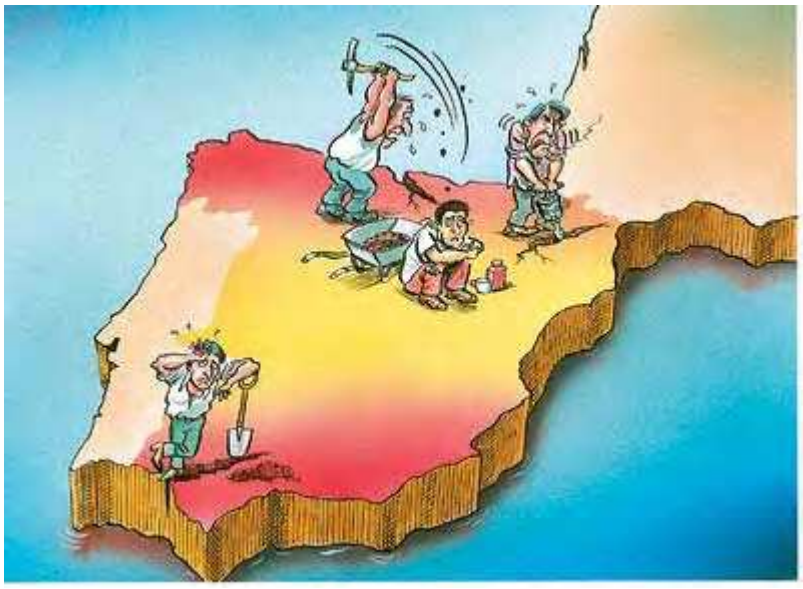

Spain's election once again throws the spotlight on its rebellious regions

JUAN MARI ARZAK, doyen among Basque chefs, disappears across his dining-room at the first mention of politics. “I do not want anything to do with it,” he says. Yet Spain's political season, now in full swing, cannot but intrude. A general election on March 14th will see the retirement of José María Aznar, after eight years as prime minister—although his People's Party, under Mariano Rajoy, is on course to win again. Argument continues over more powers for Spain's regions, especially Catalonia and the Basque country. Mr Aznar declares that the constitution is under threat. Is there a risk of Spain unravelling?

The answer is probably no, but there are at least reasons to pose the question. The moderate nationalist (PNV) premier of the Basque region, Juan José Ibarretxe, still touts his plan for a referendum on self-determination. In Catalonia, a coalition government of socialists and radical nationalists formed after last November's election is demanding more autonomy—despite the forced resignation of the radical nationalists' leader, Josep Lluís Carod-Rovira, after he admitted talking to the Basque terrorist group, ETA. Others among Spain's 17 “autonomous regions” are watching: Manuel Chaves, the socialist leader of Andalusia, says he would like to renegotiate relations with Madrid.

Yet other developments point to a lowering of tensions. The nastiest form of nationalism has, thankfully, quietened. Last year ETA killed only three people: excluding a 14-month ceasefire that ended in 1999, this is the smallest number since 1973. More effective co-operation with France's police and security services has helped. In December, several top ETA men were arrested in two French raids.

Also, besides the replacement of a hardline Mr Aznar by a (maybe softer) Mr Rajoy, several veterans are going. Xabier Arzalluz, a nationalist firebrand, has retired as president of the PNV after 30 years. His hatred of Castilian Spain and his populist rants will not be missed even in his own party. His successor (not chosen by him) is Josu Jon Imaz, a moderate with a power base in Vizcaya. In his first big speech, he spoke of creating a civic society for all Basques, not an ethnic one; strongly condemned ETA; and ruled out a repetition of the Lizarra pact that the PNV signed with Batasuna, ETA's political wing, in 1998.

Catalonia's Jordi Pujol also stood down in November, after 23 years as the region's premier. The radical nationalists who chanted “Long Live Free Catalonia” after the election may have sent a chill down

Madrileño spines; but the (now departed) Mr Carod-Rovira reassuringly said that independence was not a priority. Pasquall Maragall, the new Socialist premier, is, however, pressing ahead with plans for a new statute to include Catalonia's right to be recognised as a nation.

Madrid's response to all this is to assert that the regions already enjoy an extremely high level of autonomy under the 1978 constitution. They handle 60% of Spain's public spending; Madrid's share is just 40%. The Basque region collects all taxes, before passing on a chunk to the centre. The central government brushes off rich Catalonia's complaint that it gives more in taxes than it receives, noting that the Madrid region is also a net contributor.

In the Basque capital, Vitoria, Mr Ibarretxe plays down the controversial elements of his referendum plan. “There has been a phoney debate created by Aznar, who has used it to create a climate of anti-Basque aggression,” he says. “It is not an *independentista* plan. We are not going to make any unilateral moves.” The plan, backed by Mr Imaz, is to hold a referendum on the Basques' right to decide their own future, perhaps to make the region a “free state” associated with Spain. But Mr Ibarretxe says all this is negotiable. He wants the plan to be debated in the regional assembly in September. In response to non-nationalists' fears, he insists that “this is a way to open dialogue between all parties and to find a way for non-nationalists and nationalists to live together peacefully.”

Many Basques (57%, says one poll) still do not grasp the ultimate aim of the Ibarretxe plan. Basque business is largely sceptical. The government of Álava is hostile, and some politicians there have talked of seceding from the Basque region if Mr Ibarretxe proceeds. Genoveva Gastaminza, editor of the Basque edition of *El País*, believes the plan is going nowhere: “It is a talking-shop. It is a result of the PNV's mistake of the Lizarra pact. They have to be seen to be advancing the nationalist cause but Mr Ibarretxe faces divisions among the party's own conservative, Catholic ranks.”

The plan might not win majority support. In a *Euskobarómetro* poll last November, 32% of Basques backed the status quo, 31% supported a federal model of greater autonomy and only 31% favoured independence. Even the now banned Batasuna is lukewarm, irked by the PNV's refusal to form a united front for the March elections and charging that the PNV is using the plan to steal its votes. “We are accused of being *españolistas* from one side and *etarras* on the other,” says Mr Ibarretxe, wearily.

Mr Aznar is not taken in by any mollifying words from Vitoria. “To speak of dialogue with constitutional parties and then to defend secession is incompatible,” he has said. But Mr Aznar is equally alive to the political benefits of keeping the nationalist bogeyman alive. His party makes great play of jeering the opposition socialists, led by José Luis Rodríguez Zapatero, for their pact with the radical nationalists in Catalonia. Mr Aznar, who survived an ETA assassination attempt in 1995, trumpets the results of his firmness with the regions. His decision to ban Batasuna and his refusal to talk not only to ETA but even to the PNV have, he says, succeeded. He points to the drop in political street violence as well as to the recent apparent defanging of ETA.

There is, even so, force in the Socialist claim that Mr Aznar's tenure has alienated many Catalans and Basques, and also radicalised some strains of nationalism. Moderates in the People's Party hope that while Mr Rajoy continues to slash at the many-headed hydra of ETA he will also bring a change of tone. He might prove more open to debate on how to accommodate the legitimate aspirations of the regions. The screen of European integration could be his best cover for giving them greater autonomy—if he is brave enough to use it.

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German politics

A resigning matter

Feb 12th 2004 | BERLIN
From The Economist print edition

The chancellor gives up power in order to keep it

Get article background

AFP

Gerhard pushes Franz forward

GERHARD SCHRÖDER, Germany's embattled chancellor, had threatened to resign so often that hardly anybody believed he ever would. But on February 6th he went ahead, at least partly: he will step down as chairman of the governing Social Democrats (SPD), handing the reins to Franz Müntefering, the party's parliamentary leader. Is this the beginning of the end of Mr Schröder's chancellorship?

After much of his Agenda 2010 structural-reform package became law at the start of the year, Mr Schröder had hoped that his government would enter calmer waters. He even launched an "innovation offensive" aimed at giving Germany back its competitive edge. But cabinet ministers committed one gaffe after another—such as threatening to fine households for paying their cleaning ladies cash-in-hand. Worse, voters started to feel the painful reforms, particularly health-care changes that have markedly raised patient charges.

As a result, the SPD is down to around 25% in the polls (see chart), which bodes ill for 13 regional and local elections due this year. SPD members are resigning in droves; some officials are refusing to campaign because they are sick of being yelled at. Unsurprisingly, hardly a day has passed recently without calls for a rethink of Agenda 2010, a reshuffling of the cabinet or even Mr Schröder's head.

To keep the discontent from turning into mutiny, Mr Schröder had to act. He did it by taking a page from the SPD's period in power in the late 1970s. Helmut Schmidt was the pragmatic chancellor; Willy Brandt took care of the social-democratic soul. Similarly, Mr Schröder wants to focus on being chancellor and giving his government more coherence. Mr Müntefering will try to stop the party's implosion, and win back disillusioned voters.

Mr Müntefering is the right choice because he is in many ways Mr Schröder's mirror image. While the chancellor can come across as arrogant, "Münte", as he is affectionately called, is more humble. And whereas the chancellor rose to power against the party establishment, his 64-year-old successor is pure social-democratic bedrock. He has, at one time or another, held most big party positions. He played a key role in the 1998 campaign that brought the SPD back to power.

It is more questionable whether Mr Müntefering can persuade the SPD faithful of the wisdom of Agenda 2010. Yet here too, he seems to be the man for the job. Although he is only a recent convert to the need for structural reforms, he has done a better job than Mr Schröder of making the case for them. Yet to remain credible with the party, he will still somehow have to satisfy its left wing, which keeps calling for reforms to be more socially balanced.

Nobody actually expects the reforms to be rolled back, not least because the opposition, which has a majority in the upper house, would not agree. But the process could be slowed if the new SPD tandem

leadership fails to work. As both parliamentary leader and party chairman, Mr Müntefering may be tempted to become more than the humble servant he is supposed to be. Yet he also knows that, when party leader and chancellor are out of step, the government tends to fall—just as it did under Mr Schmidt in 1982.

Even if the new twin leadership is a success, this will not guarantee any improvement in the polls. Much depends on whether Mr Schröder can deliver his part of the deal. He is likely to reshuffle his cabinet later this year. Weak performers, such as Hans Eichel, the finance minister, may go. Although Wolfgang Clement, the economics minister, is said to have opposed Mr Müntefering's promotion and even threatened to resign as SPD deputy chairman, he is likely to stay in both jobs.

Do not count Mr Schröder out, either. Not even the opposition expects him to step down, although some Christian Democrats have dutifully called for elections. Some are secretly relieved that Mr Schröder may have found a way to stop his party's free-fall, because their own camp is far from ready to take over. The opposition has yet to come up with coherent policies to reform the tax system or health care. Nor has it chosen its candidate for chancellor.

Mr Schröder is unlikely to throw in the towel, even if the SPD loses every election this year (as most expect, although it might yet win the tiny city-state of Hamburg on February 29th). The crunch will come in the May 2005 election in North Rhine-Westphalia, Germany's biggest state. If the opposition wins then, it will have a two-thirds majority in the upper house, enabling it to block almost everything the government tries. Then Mr Müntefering may even be called on to take over Mr Schröder's other job.

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Ireland and Britain

Normal relations

Feb 12th 2004 | DUBLIN
From The Economist print edition

Irish views of Britain have changed for the better

“THE Irish are a fair people,” Dr Johnson once said, “they never speak well of one another.” But they now speak well of the British, says a new poll of young Irish professionals, jointly commissioned by the British Council and the British embassy. Three in four of those surveyed, all graduates under 40, have a broadly favourable view of Britain. Even more (81%) say the relationship between the Irish and British governments is good to excellent.

Such a response reflects a transformation in Irish attitudes to Britain over the past 30 years. Relations deteriorated as violence in Northern Ireland escalated, and the impact was felt throughout Ireland. In 1972 a mob burned down Britain's embassy in Dublin. In 1976 the IRA assassinated the British ambassador; in 1979 it blew up Lord Mountbatten.

The two countries share an 800-year history of conflict and distrust. But the latest chapter is of partnership more than friction, and also of notably good personal relations between the prime ministers, Ireland's Bertie Ahern and Britain's Tony Blair. The 1998 Good Friday Agreement in Northern Ireland was a key by-product of that improvement.

Irish unity remains a strong aspiration among those surveyed, but it is no longer pressing. While two-thirds favour it, the timing is less certain: only 36% say it will happen some time, and over a quarter of these think it will take more than 20 years. Indeed, links with Britain, as Ireland's biggest export market, now seem stronger than with Northern Ireland. Only half the respondents had ever visited Northern Ireland, against 84% who had been to London.

Ireland remains one of the best-performing economies in the European Union. Indeed, its feat of catching up and then overtaking Britain in GDP per head may be one reason for the change in Irish attitudes. Yet, in an echo of British views, the Irish public feels itself closer (in economic, social and cultural terms) to Boston (73%) than to Berlin (16%), and to the United States than to Europe.

Two years ago, when Queen Elizabeth's mother died, the Irish flag flew at half-mast over Dublin's post office: a symbolic flag over a building at the heart of the 1916 rebellion. That only one caller complained shows how normal relations now are. All that is left is a state visit by the queen. Even that is planned, though not before Northern Ireland's devolved government is restored.

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Russia's magical realism

One hundred hours of solitude

Feb 12th 2004 | MOSCOW
From The Economist print edition

Death, disappearance and mystery

EPA

Rybkin's magical mystery tour

EVERYTHING in Gabriel García Márquez's fiction has “some basis in reality”, the father of Latin American magical realism likes to say. If Russia's pre-eminent spinner of allegorical fantasies, Mikhail Bulgakov, were alive, he might say that Russian reality has some basis in fiction.

The story Bulgakov might have written is of Ivan Rybkin, one of seven registered candidates in next month's presidential election. In interviews and newspaper advertisements, Mr Rybkin has detailed president Vladimir Putin's business connections and accused him of being “the biggest oligarch in Russia”. Like Styopa Likhodeyev, a character in Bulgakov's “The Master and Margarita”, who vanishes inexplicably after meeting Satan, Mr Rybkin disappeared suddenly on February 5th.

As both Bulgakov and Mr García Márquez noted, in countries with a culture of secrecy the absence of facts allows reality to break free of its moorings and take on fantastical shapes. Boris Berezovsky, the backer of Mr Rybkin's Liberal Russia party, said he had been told by security sources that Mr Rybkin was being held and would be released on February 9th. Some accused Mr Rybkin of desperately trying to boost his meagre 1% rating. The chief of the election commission, Alexander Veshnyakov, had his own theory, but would not say what it was. Reports emerged that Mr Rybkin was staying at a spa near Moscow. The police even began a murder investigation, only to cancel it an hour later.

Like Likhodeyev, who is magically transported to the Crimean resort of Yalta, Mr Rybkin resurfaced abruptly on February 10th in Ukraine's capital, Kiev. He claimed, not very convincingly just a month before an election, that he had taken a short break, switching his mobile phone off and telling nobody he was leaving—though he later said he feared for his life. Could Mr Rybkin have been spirited away by the security services, as a warning to tone down his criticism of the president? Or was it just a publicity stunt?

That may never be known. Unfortunately, the same is true of misfortunes greater than Mr Rybkin's. Hours after an explosion had killed at least 39 people on a Moscow metro train on February 6th, Mr Putin went on television to blame the Chechen rebel leader, saying that “we do not need any kind of additional confirmation. We know for certain that Maskhadov and his people are linked to terror.” Days later, though, investigators had not ruled out the possibility of an accident. Since trains were running through the tunnel again only eight hours afterwards, a proper forensic investigation is unlikely.

Terrorists may have been the agents of the carnage. After a series of suicide bombings in Moscow and elsewhere over the past year, it was perhaps a matter of time before the metro was hit. But Moscow conspiracy theorists as usual blame the security services and Mr Putin for such incidents—as they blamed them for several bomb attacks on apartment blocks in 1999.

In any event, the security services seem unable to prevent further bombings. The terrorists may not float in the air or vanish spontaneously, as Bulgakov's characters could. But for all the good that perfunctory new security measures at metro stations will do—more document checks of dark-skinned people, the occasional sniffer dog—they might as well be able to.

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The Baltics

Teething troubles

Feb 12th 2004 | RIGA
From The Economist print edition

Little local difficulties in two Baltic countries

"WE'RE becoming the Italy of northern Europe," grimaces Atis Lejins, director of the Latvian Institute for International Affairs. His country has just lost its 11th government since independence in 1991. Vaira Vike-Freiberga, the president, scathingly likens Latvian politics to a Mexican soap opera. After Einars Repse, the prime minister, fired Ainars Slesers, his deputy, last week, Mr Slesers's Latvia First party pulled out of the coalition, leaving it with a minority in parliament.

Commentators blame the split partly on Mr Repse's abrasive personality and partly on an anti-corruption drive that has made him popular with voters but less so with certain rich and influential figures. "He can be credited with cleaning things up, but that hasn't always meant putting working mechanisms in place," says Peteris Vinkelis, deputy head of the Soros Foundation in Riga. Mr Repse himself has observed that the political system is inherently unstable.

In fact Latvia is doing worse than Italy, whose 11th government since 1989 is still (shakily) in place. But it is not unique in the post-Soviet world. It has caught up with Estonia (11 governments under seven prime ministers since 1990). Poland's government is the first in 15 years to have reached its second birthday. The reasons are many: too many small, young political parties, too many political-business ties dating to Soviet days, political systems in need of fine-tuning. Some think that a move from proportional representation to a constituency system would produce fewer, longer-lasting parties.

Collapsing coalitions are at least familiar stuff in Latvia. Lithuania's parliament is in uncharted political territory with its impeachment of President Rolandas Paksas. In December a parliamentary inquiry found that Mr Paksas had surrounded himself with friends and advisers linked to influence-peddling, organised crime and perhaps the Russian secret services. A final report from a committee of parliamentarians and lawyers has been delayed by a last-minute offer of a statement from Mr Paksas, rebutting the charges.

The longer this drags on (the constitutional court must have its say before parliament votes), the less hope Mr Paksas's opponents have of unseating him before Lithuania joins the European Union and NATO this summer. Foreign dignitaries are postponing visits to Vilnius. But Mr Paksas can hardly be kept away from a NATO summit in June that is meant to welcome new members. He is busily rallying supporters and planning his defence. Almost 20% of voters would choose him in a new presidential election, putting him just behind the front-runner, Lithuania's previous president, Valdus Adamkus. Being impeached may prove to have been the most popular thing Mr Paksas has done since being elected.

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France's environment

The killer trees

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A wrong-headed campaign against roadside trees

THE tree-lined roads painted by Alfred Sisley and his fellow impressionists are emblematic of France. Yet they are vanishing fast. Forty kilometres (25 miles) of 200-year-old plane trees, in their neat twin rows, have just been cut down near Levignac, in the south-west, to make way for a convoy of components for Airbus's A380 superjumbo, being built in Toulouse. According to a survey by the French forestry commission, 20,000km of roadside trees (some 3m trees, or almost 90% of the total) have gone in the past 30 years.

Although they are often said to be a legacy of Napoleon, who wanted to give shade to his soldiers, France's roadside trees actually date to the 16th century, when Henri IV ordered the building of straight roads flanked by *arbres d'alignement* on both sides. Planted to provide firewood and building materials, as well as shade, to passing armies, the plane trees later became loved for their beauty, eulogised by such writers as Balzac and Colette and, later, by film directors such as Jean-Luc Godard.

Now their numbers have dwindled to a mere 250,000. Road improvements and concerns about road deaths are to blame. “Lateral obstacles”, usually trees, account for nearly two-fifths of the country's fatal car accidents. In most cases, a drunken driver veers off the road and hits a tree. Camus was killed in 1960 when his publisher drove into a tree, as was Coluche (a comedian fond of a bottle of wine at lunch) in 1986.

Yet, as Chantal Fauché, a 50-year-old teacher, sagely observes, “if you hit a tree, it is not the fault of the tree.” She is the founder of Arbres et Routes, an association for the protection of roadside trees, based in the department of Gers. The doughty Mme Fauché has managed to save several thousand trees in the past few years, by painstaking negotiations with local councils.

The number of road deaths in France has fallen by over 20%, to below 6,000 a year, since the government cracked down on speeding last year. A campaign has begun against drunk driving. Yet the tree massacre continues, at the rate of 100 a day. The government is offering to plant two trees to replace every one lost to the A380. But, as Mme Fauché notes, “it takes 100 years to grow a plane tree—but just five minutes to cut it down.”

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Charlemagne

The return of Jacques Delors

Feb 12th 2004
From The Economist print edition

The gloom of a much-lauded ex-president of the European Commission

LIKE so many patriotic Americans, believers in the cause of European unity talk reverentially of the "founding fathers": such men as Jean Monnet, Robert Schuman, Paul-Henri Spaak and others, who laid the foundations of the modern European Union in the aftermath of the second world war. In the 1980s a new generation of builders of Europe emerged: Helmut Kohl, the German chancellor, François Mitterrand, the French president and, perhaps above all, Jacques Delors. As president of the European Commission between 1985 and 1995, Mr Delors drove the establishment first of the single market and then of the treaty that led to a single European currency. Today's European Union is so much his creation that the best biography of Mr Delors calls the EU "the house that Jacques built".

But the master-builder now seems rather worried about the stability of his own construction. In an interview to mark the publication of his autobiography*, Mr Delors argued that "we're at a serious turning-point for Europe." In his view, the European Union must find a realistic way of working with 27-plus members, or else "the three big countries—perhaps tomorrow, four or five—will remove their cards from the table and choose to play alone. And that will be the end of the dream of the fathers of Europe." Such an event, says Mr Delors, would in effect mark the end of the European Union; and it is by no means a remote possibility. Asked if he puts the chances of the effective collapse of the EU as high as 50%, he replies simply: "Yes." The only way out of the danger, he argues, is to allow smaller groups of countries to forge ahead with deeper integration and their own forms of co-operation, if they so desire.

It is the privilege of old men to warn the next generation of the pitfalls that lie ahead. But, in conversation, Mr Delors is at pains to avoid belittling his successors. He even apologises if he appears to be stressing his own achievements. Now aged 78, he operates from a modest office in a think-tank near the Opéra in Paris, and has an owlish, slightly shy quality. As boss of the commission, however, he was noted for his strategic vision and occasional ruthlessness. He has always had his temperamental side. Both at the commission and in previous political jobs in France, he was noted for his frequent threats of resignation.

It would be a mistake to dismiss Mr Delors's warnings as just another fit of histrionics, however. His worry that the EU could fall apart under the strain of enlargement is widely shared, even if none of today's EU leaders expresses such concerns so bluntly. Mr Delors's anxiety also reflects a peculiarly French worry about enlarging the Union from its present membership of 15 countries to 25 in May, with more coming. The French elite has become used to dominating the Union, never more so than in the heyday of Mr Delors, and it is clearly anxious that enlargement could spell an end to this happy arrangement. The elite's anxieties have transmitted themselves to the general public; opinion polls show stronger hostility to EU enlargement in France than in any of the other 14 member countries.

Mr Delors himself sounds deeply ambivalent. On the one hand he deplores the lack of enthusiasm for enlargement, which he blames on political leaders in western Europe who have failed to explain the "happiness and the historic opportunity" involved in opening the EU to the countries of central Europe. On the other, he regrets the failure of European leaders to embrace his idea of establishing a European confederation, which would have offered the countries of central Europe a high level of political co-operation with the rest of the EU, but delayed full integration until many years hence.

In his book, Mr Delors recalls discussing the idea of a confederation with Mitterrand in 1992. "He had chosen to have dinner for two in one of the libraries of the Elysée palace—perhaps for fear of hidden microphones, what do I know?" Mitterrand seemed excited by the idea of a confederation; indeed he had proposed something similar three years earlier. But in the end the proposal went nowhere. Mr Delors now says he regards this as a big "missed opportunity". In reality, though, it is difficult to imagine that a

country such as Poland would ever have accepted what sounds like “second-class membership” of the EU.

A second helping of Delors?

The views of Jacques Delors on the future of the European Union are of more than passing interest just now. Today's commission president, Romano Prodi, will pack his bags for Italy over the summer, and a successor must be appointed by June. Asked for his views as to how the next commission president should approach his job, Mr Delors suggests that he should remember that he is “the servant of the governments and of Europe.” It is a surprisingly (and perhaps disingenuously) humble note from a man who was noted for the determination with which he promoted his own ideas when he was in the top job in Brussels.

Yet one of the keys to Mr Delors's effectiveness as commission president was his ability to forge a creative working relationship with the heads of key European governments. Bertie Ahern, the Irish prime minister, who as current president of the EU is leading the search for a new commission president, is not the only one said to be looking for another Delors. The former commission president's technocratic qualities and his ability to forge a consensus would come in handy. But Jacques Delors will go down in the history books, above all else, as a visionary who pushed through breathtakingly ambitious political and economic projects for the European Union. At a time when the EU is still struggling to digest all the changes made in the Delors era, as well as to cope with the challenges of enlargement, yet another dynamic personality with ambitious ideas for Europe is arguably the last thing that it needs.

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* “Mémoires”, by Jacques Delors. Plon. €25

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Public inquiries

Judge not, lest ye be judged

Feb 12th 2004
From The Economist print edition

Everybody likes an inquiry—except MPs, who are holding one of their own to inquire into the proliferation of inquiries

EVERY disaster sparks an inquiry these days; so do political ructions, murders and, increasingly, other inquiries. This week, the Public Administration Committee thrashed out what a literary critic might call a meta-inquiry: an investigation into how and why the government calls so many of the things.

As Tony Wright, who heads the committee, points out, public inquiries have multiplied and mutated over time. The most systematic follow rules laid down in 1921. These can compel witness, hold people in contempt of court, and generally throw their weight around.

Biggest of that particular bunch is the Saville Inquiry, which heard its last oral testimony this week. Charged with investigating the events of Bloody Sunday, 1972, when 14 civil-rights marchers were killed in Londonderry, it began to sprawl almost immediately. The inquiry's counsel kicked things off with a 176-hour opening statement—quite enough for Sir Edward Somers, a 71-year-old judge, who abruptly resigned, citing a shortage of “vigour and energy”. Since then, more than 900 witnesses have testified, and around £155m ($285m) has been spent.

This sort of exhaustive process is increasingly out of fashion, though. The vogue now is for bespoke inquiries—efficient, informal processes carefully tailored to the problem at hand. Lord Hutton's inquiry, for example, cost a mere £2m. It was, to its critics, a little too close-fitting, but that problem was easily remedied. A week after Lord Hutton reported, Tony Blair announced another bespoke inquiry into the quality of intelligence.

For the government, such processes are useful. Not only do they provide a temporary excuse for refusing to answer questions, but they also move controversies into the legal realm. Jeffrey Jowell, a barrister who teaches at University College London, believes that political controversies can be “neutered” by handing them to someone who seems to embody dispassionate inquiry. Once a judgment is reached, of course, the controversy will abruptly recover its political potency. But as Lord Hutton has found, that is mostly a problem for the presiding judge.

Are inquiries good for the country? Certainly, their recommendations are taken seriously, and often lead to legislation. But bad events can lead to bad initiatives. The inquiry into the Clapham rail disaster in 1988 which killed 35 people recommended an absurdly expensive safety system. The government at first accepted, and then abandoned, the recommendation. The police are still struggling with Lord Macpherson's finding of institutional racism, which has proved impossible to stamp out, or even identify. Worse still, they cannot get out of the bind: sharp criticism from an independent inquiry is harder to shake off than a pressure group.

Despite these mis-steps, inquiries remain enormously popular with the public. Victims' families demand them as a matter of course, perhaps as a way of asserting that their tragedy is as meaningful as the previous one. Even in Northern Ireland, where public inquiries have an unhappy, whitewash-tinged history, there is currently pressure for half a dozen more.

Lawyers are particularly keen on inquiries, partly because of what one counsel calls “the sheer bloody fascination” of the work, partly for more practical reasons. The work is high-profile and steady, and it translates nicely into the commercial sphere. Companies, like governments, have taken to using legal inquiries to give themselves a clean bill of health—and unlike governments, they pay well. The vital thing, lawyers say, is to pick the right public inquiries. Get sucked into a Bloody Sunday investigation, and your commercial clients will forget about you.

The only people less than thrilled with the growth of public inquiries are MPs, whose own investigations are looking rather tawdry by comparison. That became painfully clear last summer. Andrew Mackinlay, a member of the Foreign Affairs Committee, tried to loosen the weapons expert David Kelly's tongue by reminding him that he was before “the high court of Parliament”. Not only did the gambit not work, but the MP for Thurrock was soon hauled before Lord Hutton's inquiry.

As Mr Mackinlay pointed out at the time, it is odd that Lord Hutton's inquiry, which had fewer legal powers than his own committee, managed to obtain many more documents. He may soon find out why. In spring, Parliament's inquiry into inquiries will call Lord Hutton to testify.

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Immigration

The parable of the cockle-pickers

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Why did 19 Chinese cockle-pickers drown in Morecambe Bay?

ON FEBRUARY 5th, a party of Chinese labourers made its way down a track near the village of Hest Bank, on the shore of Morecambe Bay. They passed a jumble of signs warning them in English about quicksands, rising tides and hidden channels, crossed the salt marshes strewn with empty cockle-bags, and proceeded for over two miles across the mush exposed by the low tide. In a part of the bay known as Warton Sands, they set about raking for cockles. Then the tide rushed back into the channels between them and the land, and 19 of them drowned in the dark.

At first, this lethal and outlandish conjunction of an arcane seaside trade and the globalised labour market baffled analysis. Before long, however, politicians and others were finding corroboration for their views in the cockle-pickers' misfortune.

For the government, the deaths proved the menace of the “snakeheads”, gangs who smuggle Chinese emigrants to the west for perhaps £20,000 ($37,000)—the sort of crooks that a new FBI-style policing agency, announced by Tony Blair this week, is supposed to tackle. The Morecambe drownings, like the discovery of 58 suffocated Chinese in a lorry in 2000, seemed to endorse this view of the snakeheads as viciously exploitative. In fact, says Frank Pieke of the University of Oxford, the snakeheads are more commercial travel agents than evil gangsters, and their cargo are willing and ambitious. Fujian province, from where many latter-day Chinese immigrants to Britain and America come, is well-off by Chinese standards; the cash remitted to it buys new houses for the emigrants' families, after the heavy loans taken out to fund their journeys are repaid.

For others, the culprit in Morecambe was another sinister-sounding villain, the gangmaster. Certainly, whoever sent the Chinese to Warton Sands was ignorant of the tides and appallingly, perhaps criminally, negligent. They had been warned: one local says that he and others rescued some mired Chinese workers from the bay last year, but that, because experienced cocklers go ashore before the tide turns or night falls, no one was around to help last week. (The government, it has emerged, had also been warned about the cockle-pickers' plight—in a letter from the local MP last year.) Some gangmasters pay starvation wages and dock money for accommodation in gruesome hostels. But, as one protests, some provide a legitimate service, matching willing workers, foreign and indigenous, with short-handed firms.

A new licensing system for gangmasters now seems likely. But, like snakeheads, they are only part of the explanation for Morecambe. Changes in Britain's Chinese economy, and government immigration policies, may also be to blame.

The Chinese who arrived in Britain from the 1950s to the 1970s came largely from Hong Kong, Singapore and Malaysia. They set up thousands of Chinese takeaways and restaurants. Then their children and grandchildren did well at school and eschewed the anti-social grind of catering for the professions. As Thomas Chan, of the Chinese Takeaway Association, explains, more recent arrivals filled the resulting labour gap. Now, the jobs have run out in some parts of the country, wages have declined, and some greenhorns are looking beyond the Chinese community for work in construction and agriculture.

Government policy has encouraged them. Of the 14 Chinese who survived the disaster, nine had already claimed asylum and four have done so since. Asylum-seekers are not allowed to work in Britain, and opportunities for legal economic migration are slim. Towards the end of last year, say Mr Chan and Jabez Lam, a Chinese civil-rights activist, immigration officials stepped-up their spot-checks of restaurants and takeaways, heavily fining proprietors who use illegal workers. The prospect of being caught in such a raid is said to have helped persuade some Fujianese to seek their fortunes outside the kitchen.

Since the disaster, Chinese migrants are thought to have moved away from north-west England: there were none among the cocklers who returned to the sands near Hest Bank on February 10th. But until last week, cockling was one of the opportunities they turned to. Raking and *schlepping* cockles is attritional work, but lucrative (for their bosses, if not for the Chinese). Restrictions and contamination at other beds have made those in Morecambe Bay especially popular. The trade is only loosely regulated: though 39 illegal Chinese cocklers were arrested in the area last summer, some Chinese secured permits when the beds opened in December.

Tragically, picking cockles in Morecambe Bay, with its racing tides and quicksands, is also perilous. And it can be rivalrous: the week before they died, someone set fire to the Chinese workers' catch. Such treatment might partly explain why they were sent out to the sands when others knew better—and, along with all the other reasons, why 19 people from the other side of the world ended up drowning in the dark off the coast of Lancashire.

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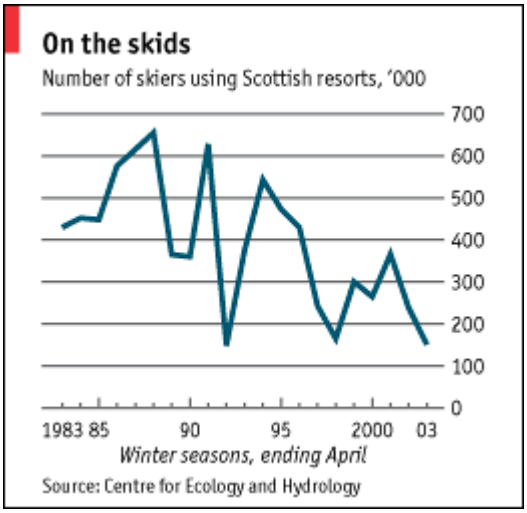
About sponsorship

Scottish ski resorts

Going downhill

Feb 12th 2004 | AVIEMORE
From The Economist print edition

Subsidising Scottish skiing



SNOW and skiers are both thin on the ground these days in Scottish ski resorts. Global warming and cheap flights to the Alps are to blame. Since the late 1980s the number of days with skiable snow has fallen by about a quarter and the number of ski passes sold has halved (see chart).

Scottish skiing is heavily subsidised. Most of the £27m ($43m) in state aid doled out in the past 15 years has gone to one of Scotland's five ski resorts—Cairngorm, a state-owned enterprise with a large appetite for subsidy.

In the mid-1990s, when visitor numbers were falling, Highlands and Islands Enterprise (HIE), the north of Scotland's main economic development agency, which owns most of the resort's assets, decided it needed a makeover. The big idea was to replace the wind-blasted main chairlift with a funicular railway.

The railway was meant to cost taxpayers £12.1m. By the time it opened in 2001, the bill was supposedly up to £14.8m, but *The Economist* has learnt that it actually cost taxpayers £19.6m. HIE gets £513,000 rent a year, a lowly 2.6% return, from CairnGorm Mountain, the company that runs the railway and the skiing.

The enterprise looks dubious on several counts. Morrison Construction, the Scottish firm which did the civil engineering, was chaired by Sir Fraser Morrison, who was also chairman of HIE when the railway project was being planned. Midway through the building work, Iain Robertson quit as chief executive of HIE and became a director of Morrison Construction. Investigations by the Scottish Executive, the devolved Scottish government, found no evidence of wrong-doing. Nevertheless, local suspicions remain, particularly as most of the £4.8m cost over-run went to Morrison Construction, which was taken over by AWG, another construction firm, during the railway building.

Jim Hunter, HIE's present chairman, blames conservationists. They went to court to stop what they saw as the despoiling of Britain's only sub-Arctic habitat of rare plants and birds on the Cairngorm plateau, delaying the start, and spreading building work over three summers instead of two. Unexpectedly difficult tunnelling and complicated soil-protection work also raised costs but, he claims, could not be disclosed at the opening because HIE was negotiating Morrison's bill down by several million pounds.

HIE might have to spend still more if the resort is to stay open. Since 1998-99, CairnGorm Mountain has lost money—£1.9m in 2001-02. The extra 150,000 visitors the funicular brought in 2002 is not enough to close the gap, particularly as 2002-03 was the worst skiing year on record and this one promises to be just as bad.

Bob Kinnaird, CairnGorm Mountain's chief executive, says the company can break even, in part by cutting the workforce of 85 permanent and 200 seasonal employees. That is not good news for HIE, however. The EU gave £2.7m towards the railway, on the understanding that 40 full-time and 65 part-time jobs would be created. If that does not happen, HIE will have to refund some of the money.

HIE insists, however, that the funicular is still a good deal for the local economy, which is 80% dependent on tourism. They say it was crucial in persuading Macdonald Hotels, a big chain, to spend £23m on

upgrading Aviemore's main hotel and extending a golf resort in the town. Cynics note, however, that a further £8m subsidy for these developments might also explain the hotel company's enthusiasm.

What if, as the climatologists think, warm winters are here to stay? In the worst case, the railway might have to close and be taken away. That would please the conservationists, who worry that the pressure to generate summer income may lead to hordes of tourists being allowed to trample the delicate 4,000-ft high plateau instead of being confined to the café and viewing platform at the top of the railway. But it would not please the taxpayer, because HIE would have to pay the hefty railway-removal cost.

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Wildlife

Deer me

Feb 12th 2004
From The Economist print edition

Why deer are up and birds are down

THERE are now, according to Ben Bradshaw, a farming minister, about 1.5m deer roaming Britain—more than at any time since the last Ice Age. One reason is milder weather. Another is that farmers increasingly sow grain and rapeseed in autumn rather than spring, because crops grow more vigorously in spring and so produce better yields. That provides fodder for deer in winter. At last, it seems, an agricultural technique which improves farmers' profits and boosts wildlife.

Not quite. Autumn planting may help see deer through hard times. But it is also blamed for a decline in numbers of certain bird species.

Graham Appleton, of the British Trust for Ornithology, says that autumn and winter planting means less grain lying around fields in winter. Naturalists think that may explain why corn bunting numbers are down by 41% since 1994, grey partridge by 18% and yellowhammer by 13%. Autumn-seeded crops also grow too tall too quickly for field nesters such as skylarks (down 14%).

The only way to boost bird numbers is probably through farm subsidies—redirecting them to be used to let more fields and field margins lie fallow. But if the deer are reckoned to be a problem—they threaten woodland and habitats for dormice, voles and nightingales—dealing with them could be profitable. Mr Bradshaw thinks that more should be shot and eaten. So, oddly enough, do the conservationists. At last, then, a countryside policy on which everybody, including the environmental and bloodsports lobbies, can agree.

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Interest rates

Further rises ahead

Feb 12th 2004
From The Economist print edition

But the Bank will not tighten policy too aggressively

THE Bank of England's *Inflation Report* this week confirms that Gordon Brown has confounded sceptics. Not so long ago, most observers believed that his growth forecasts were dangerously over-optimistic. Now it looks as though he got things pretty much right.

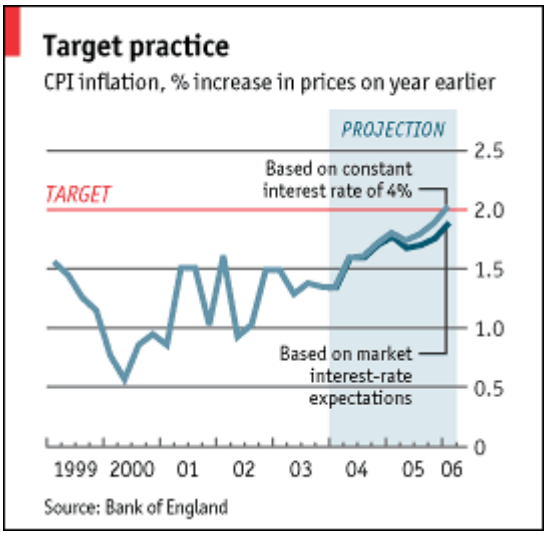
If this is good news for the government and the economy as a whole, it will not bring homeowners joy. Last week, the Bank raised interest rates to 4%. The *Inflation Report* suggests they will rise further.

The Bank's central inflation projection, based on interest rates staying at 4%, shows CPI inflation rising from its current rate of 1.3% to reach the 2% target in two years' time. According to the Bank's forecast, inflation will continue to rise in 2006. The full impact of interest-rate changes on inflation takes about two years, so the Bank will need to raise rates further in order to meet the inflation target.

But the surprise is that, given the strong outlook for growth, the Bank does not expect inflation to rise more. The Bank is now predicting that the economy will grow by more than 3% this year, considerably faster than its forecast last November. Consumer spending will be resilient while exports and business investment are poised to recover. Mervyn King, the Bank's governor, welcomed the prospect of “a long overdue rebalancing of the economy”.

There are two main reasons why the strong recovery is not leading to more of a pick-up in inflation. The first is that the Bank now thinks there is a bit more spare capacity in the economy than it estimated in November. The second is that the recent appreciation of the pound should help to curb inflationary pressures.

This means that fairly modest interest-rate rises should do the trick. At present, the financial markets are expecting official interest rates to rise to 4.5% by the final quarter of this year and to 4.75% by late 2005. Based on these expectations, the Bank's central projection is that CPI inflation will rise less steeply and will be below the 2% target in two years' time (see chart).



The Bank has good reason to proceed cautiously. It wants to slow down house-price inflation, which it expects to decline to zero by 2005, but not to precipitate a collapse in the housing market.

The upshot is that the Bank will raise rates less aggressively than was once feared. In November, the City was betting that rates would reach 5% by the end of this year. Now they look likely to rise to 4.5%.

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Targets

About turn

Feb 12th 2004
From The Economist print edition

The government beats a retreat on targets

COMMAND-AND-CONTROL has been the hallmark of the Labour government's approach to the public services. The deal has been simple. The government provides sackloads of money. In return it gets better performance driven by precise, numerical targets set at the centre.

But this week John Reid, the health secretary, said that many of the National Health Service's performance targets will be replaced by “quality standards” from 2005. The details of these standards will be set out by the new Commission for Healthcare Audit and Inspection.

Mr Reid's announcement in a speech to NHS executives in London was notable because targets have been so central to the government's health strategy. The health secretary maintained that they are no longer essential because they are being met so successfully. “Precisely because the NHS is delivering through the huge initial impetus that targets are providing, we can extend the focus to enhanced quality standards,” he said.

This chain of reasoning is a bit of a stretch. If targets were proving so effective, the government would surely be setting more exacting ones rather than dropping them. Yet although it is persisting with some targets (such as the one to cut waiting times for an operation to three months by 2008) its consultation document makes clear that the new standards designed to develop better performance are “aspirations, not targets”.

In reality, the government is beating a retreat. Despite Mr Reid's bluster about the success of targets, there is little evidence that they have succeeded in the health service or elsewhere. A recent analysis of the health service by the OECD found “few indicators showing unambiguous improvements in outcomes over and above trend improvements that were already apparent before the surge in spending”. It said that targets can be achieved only if the incentives are right. Behaviour is affected only if service providers “feel motivated to meet the targets”.

Doctors have long maintained that targets are counter-productive. Their worry is that the pressure on hospital managers to meet central targets outweighs clinical judgments about the best interest of patients. Nigel Edwards, policy director of the NHS Confederation, which represents health-service organisations, says that the target regime has caused “collateral damage by harming relations between doctors and their employers”.

The government's retreat from targets is the logical counterpart to the rebirth of the internal market within the NHS, in which money will follow the patient. The creation of more autonomous foundation hospitals is also intended to loosen the grip of Whitehall. As Mr Reid pointed out in his speech, “Because we are giving power to patients we will need fewer targets from the centre.”

Mr Reid's volte-face was foreshadowed six months ago when Patricia Hewitt, trade and industry secretary, admitted that there had been too many targets. A select committee of MPs called last year for fewer targets and more local control over setting them. Ministers should not be surprised if their experiment with command-and-control has failed. Soviet central planners could have told them it would.

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Education

Specially needy

Feb 12th 2004
From The Economist print edition

Some think special schools especially good; others think they're bad

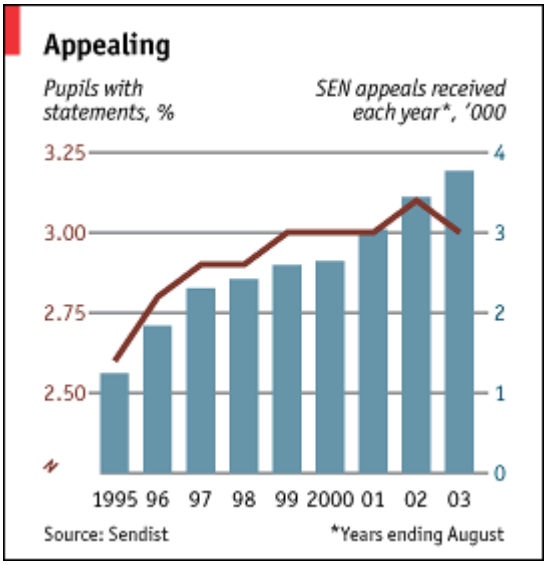
ALL too often it goes like this: parents spot that there is something wrong with their child, and want special provision for him at school. The authorities, short of cash for all kinds of education, try to fob them off. The parents hire lawyers and experts to prove their case. The state does the same to contest it. A lot of time and money is wasted. Even if the parents win the argument eventually, the child has to suffer a lot first.

This week the government launched a new strategy which aims to move to a less confrontational system in England (other parts of the country have their own set-ups). It offers a raft of sensible-sounding suggestions, including early intervention, offering a better mix of mainstream and specialist education, and letting schools rather than bureaucrats choose how to spend special-education money.

“We need to get very clever quite quickly,” says Baroness Ashton, the minister responsible. Numbers of children with special educational needs are rising, partly because of success in keeping very premature babies alive: less time in the womb means more problems outside it. Even trickier to cope with is the rapid growth in diagnoses of autism and related disorders, where both the nature of the problem, and how to deal with it, are contested.

Overall, around one child in six has some sort of “special needs”, ranging from minor physical disorders to severe disabilities, but two-thirds of the money spent on special education goes to the 3% with official statements of their needs. That is often unfair, and drawing up a statement is bruising and expensive, so local authorities are trying to issue fewer (see chart). But that makes parents complain even harder against what they see as bureaucratic penny-pinching and foot-dragging.

Calming that down will be hard. The aim, says Baroness Ashton, is to restore confidence all round: among parents, that the schools offered will be suitable; and among teachers, that they will be able to cope with difficult or disturbed children.



The hottest issue is the future of special schools. Their opponents, including disabled adults who have experienced them first-hand, see them as educational apartheid. Mark Vaughan, of the Centre for Studies on Inclusive Education, wants them abolished by 2020 and replaced by specialist units inside mainstream schools. They perpetuate prejudice against disabled people, he argues, and do not equip their pupils for life when they leave.

But another vocal lobby believes that special schools are vital. In south London, for example, parents at Chartfield School, which specialises in children with speech and language disorders, are horrified by the local council's decision last month to close it. Howard Battersby, the chairman of the governors, says that many pupils moved there just because they found ordinary schools so awful.

Baroness Ashton says she wants to move from an “either-or” system to a “both-and”. Instead of parents having to choose between their children being bullied and neglected in a mainstream school or dumped in a special school, they will get the best of both worlds. The specialist schools will improve under government pressure, and become resource centres, providing expertise and some teaching; mainstream

schools, with beefed up teaching and extra helpers, will do the rest.

That sounds fine, but making it happen will be hard. Local authorities vary hugely in the way they run special education. So do schools' attitudes: some encourage parents to have their children designated as having special needs in order to gain additional money. Others, that want to do well in the league tables, may not be keen to admit children with special needs, and may be eager to exclude them (although the habit of treating pupils individually may in fact raise standards all round).

Tolerance, in short, is a wonderful thing. The problem is enforcing it.

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Euphemisms

Challenging language

Feb 12th 2004
From The Economist print edition

Disability and euphemism go together

ENGLISH is blind to the arguments of the visually challenged and deaf to the entreaties of those with auditory impairment. But that has not handicapped efforts to cripple the language with euphemisms. Even the most painstaking efforts cannot avoid giving offence.

“We don't use ‘special educational needs' here—it gives the message that the problem rests with the child,” says a Welsh bureaucrat, a touch sniffily. “We prefer ‘additional support for learning'.” In Scotland, a new law designates “additional support needs” as the right term.

Sometimes labels are a source of pride. Militant deaf people see themselves as a kind of ethnic minority, with their own language (more people sign than use Welsh or Gaelic): they insist on a capital letter for the Deaf community.

A bit of kindness is understandable: even the most robust might shy from terms like cretin and spastic. But it is more often about squeamishness. “Badly disabled” is taboo. “Severely” is dodgy. For someone who can't walk or talk, try “profound and multiple learning difficulty”. “Challenging” behaviour means scratching, screaming and other disruptiveness.

Some nuances are hard for outsiders to grasp. “Handicap”, say disability groups, is pejorative because it sounds like “cap in hand” which is demeaning; instead of “the disabled”, the preferred term is “people with disabilities”. But just as telling a child who is bad at maths that he has “dyscalculia” will not help his sum, other labels, however gentle, do not soften a bleak reality.

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Bagehot

Back home

Feb 12th 2004
From The Economist print edition

The home front beckons, but the war has changed it

THE sense of war-weariness is palpable. Even broadsheet newspapers have decided their readers deserve a break, devoting a good deal more coverage to the contestants of “I'm a Celebrity, Get Me Out of Here”, a reality television show, than to further minutiae about the time it takes to launch a non-existent Iraqi weapon of mass destruction.

At Westminster, all passion is spent. A few obsessives apart, MPs are hoping with quiet desperation that the time has come to move on. What is a good deal less clear is whether and how the poison unleashed by the war will linger.

One thing is fairly plain. Almost everyone has made up their mind about Iraq and nothing is likely to change it—certainly not the inquiry into pre-war intelligence that has been placed in the safe hands of Lord Butler. Since the end of summer, apart from a brief blip when Saddam Hussein was arrested, most people, albeit by a small majority, have concluded it was wrong to take military action. Unless the news from Iraq becomes a great deal better, that won't alter. There is also a widespread belief that Tony Blair, at best, exaggerated the case for war. That too seems pretty immutable.

What is extraordinary is how little impact, at least superficially, such a devastating verdict has had on the political landscape. A Populus poll this week in the *Times* reflected the post-Hutton backlash in that the anti-war Liberal Democrats had gained at the expense of both Labour and the Tories. But despite the fairly settled view of over half the electorate that Mr Blair took the country to war when he should not have, the government retains a commanding five-point lead over the Conservatives. And when it comes to choosing a prime minister, Mr Blair is even further ahead of his Tory counterpart, Michael Howard.

However, the poll had another finding which should trouble Mr Blair and Mr Howard in equal measure: while 77% said they were dissatisfied with the government, 60% nonetheless preferred it to the Tory alternative. That suggests a mood of deep cynicism about the political process itself. When people say that they no longer trust Mr Blair, they say it neither in sorrow nor in anger. The idea of trusting any politician strikes them as silly, as does the possibility that any government might be capable of making some things better.

Ironically, it is because Mr Blair understood this all too well that he convinced himself the disputed intelligence dossier was needed. In the event, nobody paid very much attention to it until after the war was over. But the damage done subsequently has been literally incalculable. Although compiled in (fairly) good faith and with the best of intentions, the dossier now stands as an irrefutable proof for the cynics.

By a further irony, through incessantly trying to brand the prime minister a liar—a quite unnecessary coarsening of the political debate—Mr Howard has probably done as much damage to himself and his own prospects as he has to Mr Blair. To the extent that Mr Howard has succeeded, it is most unlikely that voters have decided that Mr Blair is uniquely untruthful, but that all politicians, Mr Howard included, are mendacious.

As the focus returns to the bread-and-butter issues that will determine the outcome of the next election, the absence of trust will dog the efforts of both men, Mr Howard particularly.

Mr Blair will find it uphill work convincing voters that the large sums of money he has thrown at health and education have been as “transformative” (to use a favourite Blair word) as he claimed they would. An over-emphasis on incomprehensible or irrelevant targets hasn't helped, while the inadequacy of the techniques used to measure public-service outputs has made the picture seem bleaker than it is.

But while scepticism over whether taxpayers are getting value for money is bound to persist, it would be astounding if most people do not start to notice some improvement in the services they depend on before they go to the polls in about 18 months. For all the waste and the timidity of the government's reforms, the money is starting to make a difference in the ways one would expect. The facts on the ground may have betrayed Mr Blair in Iraq, but at home they may yet come to his rescue.

A question of trust

Mr Howard's problems run deeper. This week, he gave a speech intended to establish his credentials as a compassionate conservative in contrast to the hard-faced Thatcherite of old. It worked, but only up to a point.

On the plus side, his declaration that he would vote for government legislation giving rights to homosexual couples and his condemnation of discrimination in all its forms will have reassured social liberals. Rather more ambiguous was his elucidation of his “small government, big people” credo. To realise a “British dream” no less potent than the more familiar American version, all that was needed, according to Mr Howard, was for the state to stand back and allow people to reach their true potential both economically and morally. This is a perfectly respectable point of view and it is an interesting counterpoint to Mr Blair's fervent belief in what he calls the “enabling state”.

But it is hard to see how Mr Howard's enthusiasm for a greatly shrunken state combines with his need to persuade those distrustful voters that the public services will be safe in Tory hands. Indeed, so determined is Mr Howard to reassure on that point that on February 16th, the shadow chancellor, Oliver Letwin, is expected to commit a future Conservative government to outspend Labour on health, at least initially.

Much more than governments, which, for better or worse, are known quantities, oppositions need to win trust. In the poisonous climate Mr Howard has helped create, that commodity is in short supply.

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A special case

Feb 12th 2004
From The Economist print edition

AP

Switzerland has always prided itself on its exceptionalism, but there are signs that it is becoming more like other countries. Barbara Beck examines the current state of Swissness

“WE CAN re-grind your skates,” says a sign at a key-cutting stall in the main railway station in Bern, Switzerland's capital. How very Swiss, the visitor thinks. It conjures up visions of traditional winter fun in a pristine white landscape. But it also suggests good sense, a certain frugality and concern for the environment: don't throw out something that is still perfectly serviceable.

“Swissness” covers a range of attributes that Switzerland has been using to good effect to sell itself to other countries—and perhaps even to itself. It stands for democracy, fairness, stability, quality, meticulousness, punctuality, thrift, efficiency, openness and all sorts of other desirable things. For the buyer of a Swiss watch, it means clockwork reliability. The rich man will confidently entrust his money to a Swiss bank. The holidaymaker is sure to have a comfortable night, courtesy of Swiss hotel-school training. And Swiss chocolate will be dependably delicious.

Exchange rates
Swiss franc, February 2nd 2004

€1=	SFr1.57
£1=	SFr2.29
$1=	SFr1.26

In those and all kinds of other ways, Switzerland is special. It is the oldest democracy in the world, with a political system that many foreigners envy. It remains fiercely independent, having stayed out of two world wars by being deadly serious about its armed neutrality. For much of the 20th century, its people were richer, on average, than those of any other country, and it remains close to the top of the wealth league.

It has four official languages (not to mention English, which is understood by at least half the population) and a kaleidoscope of ethnic and religious groups, which makes outsiders wonder how it managed to stick together for so long. It may be a long way from the sea, but last year (with the help of a few New Zealanders) it even won the America's Cup, an international yacht race usually dominated by rich Americans. For a small, landlocked country of 7m people with a difficult geography and no natural resources to speak of, Switzerland has done remarkably well.

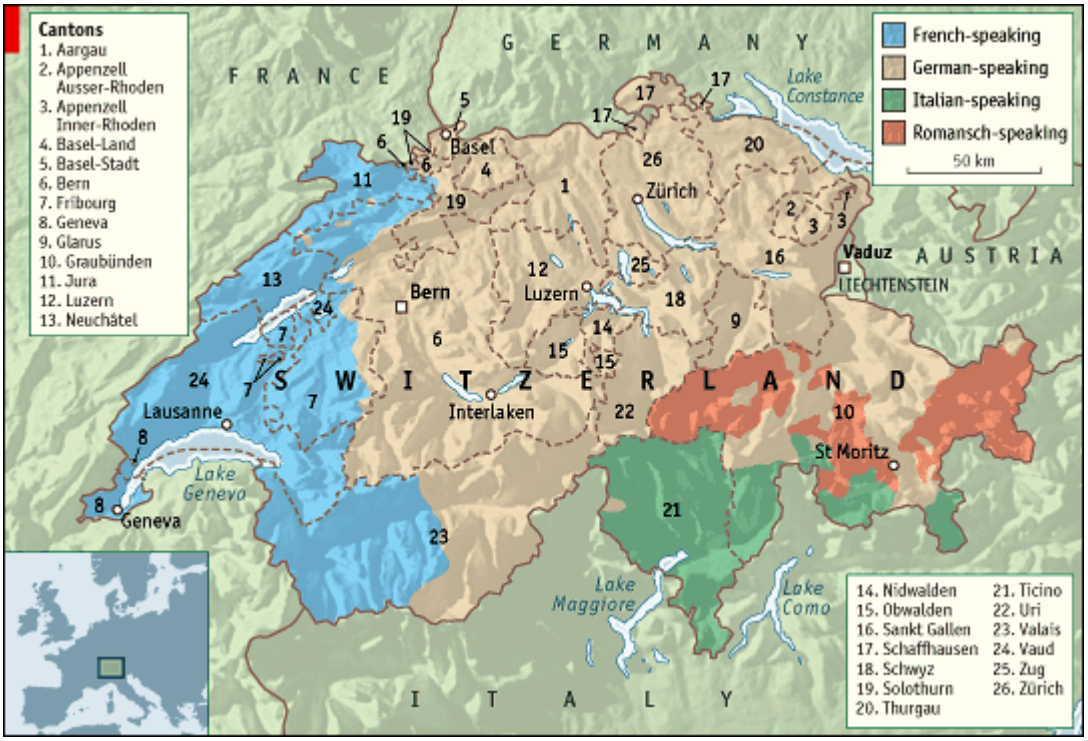
Anni horribiles

However, this survey will argue that the Swiss island of calm is becoming a little more like other countries. In recent years it has found itself battered by a few storms. A fair amount of damage was caused by the revelation that neutral Switzerland had behaved rather less well in the second world war than everybody had wanted to believe. It turned away too many Jewish would-be refugees at its borders; indeed, it has only just got around to pardoning those Swiss citizens who illegally helped Jews to enter the country during the Nazi period. Switzerland also bought great quantities of gold that Nazi Germany had looted from the occupied countries. And, after the war, anxious to preserve its banking secrecy in the face of money-laundering charges, it did not look hard enough for money deposited in Swiss banks by Jews who died during the Holocaust.

In defence of their wartime behaviour the Swiss pointed out, not unreasonably, that if they had antagonised the Nazis too much they might have been invaded too, which would have been worse for everyone. But their squeaky-clean image suffered, particularly in America.

On the business front, too, Switzerland has recently shown itself to be fallible, most spectacularly with the grounding in 2001 of Swissair, the national airline that had been marketing itself as the very essence of Swiss reliability. No sooner had Swissair fallen by the wayside than a new airline, Swiss, was launched to take its place. Outside observers felt that the government, the big banks and other large companies were perhaps a little too ready to help. A few other big Swiss companies also went through a sticky patch, but mostly seem to have recovered now.

What has yet to recover is Swiss economic growth. For a variety of reasons (of which more later), since the early 1990s Switzerland's income per head has been almost static. Many other rich countries have done better in the growth stakes, and several have now overtaken the erstwhile champion. The Swiss economy depends heavily on exports, so it suffered badly when the dotcom bubble burst, stockmarkets collapsed and other economies turned down. And although most Swiss companies that trade internationally are world-class, the domestic sector is much less competitive, and is heavily protected or subsidised.



Switzerland has also faced a huge rise in public expenditure in recent years, much of it because spending on health care and disability pensions has got out of hand. With an ageing population, the next big worry is retirement pensions. The country has always prided itself on small government, but the share of GDP taken up by taxes and deductions is now moving closer to the share elsewhere in Europe, and government borrowing has shot up.

Unemployment is around 4% and shows no sign of coming down. Many other European countries would be delighted with that figure, but by Swiss standards it is worryingly high. People remember that not so

long ago Switzerland was importing lots of foreign workers to relieve its labour shortages. A quarter of its labour force are now foreigners, with jobless rates higher than those of the natives.

The Swiss used to be proud of their education system, which appeared to turn out large numbers of skilled and highly employable people. But in 2000 they got a rude shock when an OECD study comparing children's educational attainments in a range of industrial countries revealed that although Swiss kids did well at maths, they were only middling at reading and science. The official explanation was that teaching children several languages from an early age may have caused an overload, but Swiss pride suffered.

Confidence was also dented by a collision in 2001 between two lorries in the St Gotthard tunnel under the Alps that left 11 dead and closed the tunnel for two months, and by a mid-air crash in Swiss-controlled air space in 2002 that killed 71 people. Of course accidents will happen, but the safety-conscious Swiss felt especially troubled.

A paler shade of neutral

However, the news has not been all bad. The end of the cold war made it much less likely that Switzerland will face any external threat, and this has caused the country to re-examine its policy of armed neutrality. It still refuses to join any alliance that will oblige it to take military action in the event of war (which rules out NATO membership), and will still not send soldiers into battle unless the country itself is threatened. But it is now prepared to back UN action against rogue countries. During the war in Bosnia it allowed its airspace to be used to supervise the no-fly zone, and some of its troops even took part in the multinational peacekeeping operation in Kosovo. In a referendum in 2002, after decades of soul-searching, the Swiss people at last agreed to join the UN.

Now that it is surrounded by EU countries on all sides, Switzerland feels less need to be armed to the teeth to repel potential invaders. Since the mid-1990s, it has been reorganising and drastically cutting down the size of its militia army. In future, most men will need to keep their rifles under their beds only up to their late 20s instead of well into middle age.

This will save money and manpower, but in some people's minds it will also make Switzerland a little less special. Traditionally the army was one of the things that helped to define Swiss identity, and enjoyed widespread popular support. It was seen not only as a way of serving the country but also as a social leveller (which it probably wasn't) and a splendid networking opportunity (which it used to be but probably no longer is in the same way).

The relentless spread of the EU all around has not pleased everyone in Switzerland. The country has strong linguistic and cultural ties with the three biggest EU members, Germany, France and Italy, as well as friendly relations with all the other member countries, and most of its foreign trade is done with Europe. But the bigger and more powerful the European club becomes, the more it seems to worry the Swiss. With their decentralised political system and strong direct democracy, they distrust the EU's centralising tendencies, and they dislike the idea of laws made in Brussels rather than in Bern.

In 1992, almost to their own surprise, they narrowly voted against joining the European Economic Area, which was widely seen as a “training camp” for the EU. That may have been because around the same time the federal government of the day, probably unwisely, put in an application to join the EU itself, without much prospect of popular Swiss support. The application has been gathering dust in Brussels ever since. Official government policy still aims for eventual entry, but even enthusiasts acknowledge that this is unlikely to happen for a decade or two. Meanwhile, Switzerland has found a way of living with the EU by negotiating a series of bilateral agreements.

All this helps to explain the large gains made in last October's federal election by the far-right Swiss People's Party (SVP), led by the charismatic Christoph Blocher, who is now minister of justice in the seven-strong Swiss cabinet. The party caused a splash with its rather xenophobic-sounding campaign against illegal asylum-seekers and its attempts to link law-and-order concerns with foreigners. But its biggest attraction to Swiss voters may well have been its policy on the EU, which can be summed up in two words: keep out. At least in that sense, it seems, the Swiss would rather stay special for now.

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The Blocher factor

Feb 12th 2004
From The Economist print edition

Swiss politics has moved slightly to the right. But how much difference will it make?

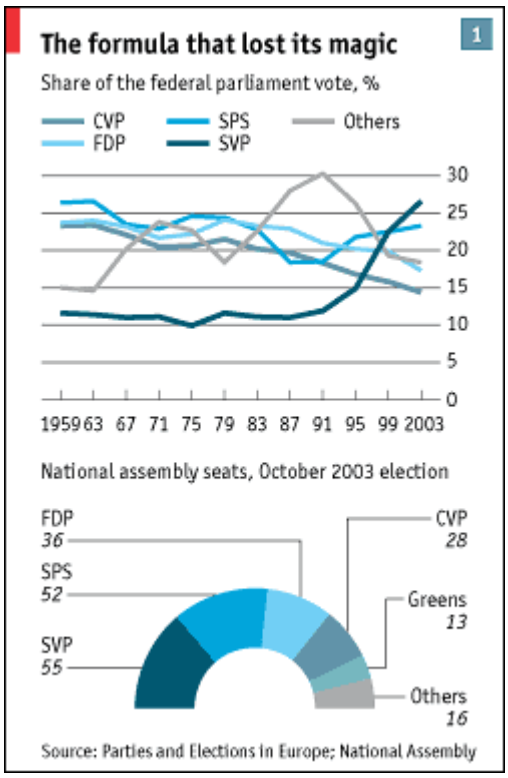
Reuters

Blocher made it

IMAGINE a political system where the four biggest parties, ranging from fairly far left to fairly far right, form a permanent coalition. After each election, the seven ministerial seats are shared out among them, under a formula set decades ago. This cabinet of disparate politicians is expected to come to unanimous decisions, which it does behind closed doors, so the outside world never (or hardly ever) finds out how its individual members argued on a particular issue.

Ministers take it in turns to serve as president—an office with limited powers—but only for a year at a time, so they don't get too big for their boots. As members of the cabinet, on the other hand, they can usually expect to be re-elected as often as they like, and the longest-serving get first pick at the portfolios. To those brought up in more adversarial political systems, all this sounds pretty rum, even undemocratic. But in Switzerland it seems to work.

Or at least it did, until the most recent federal election on October 19th last year, which delivered a small earthquake. The populist right-wing Swiss People's Party (SVP), led by the controversial Christoph Blocher, increased its share of the vote to 26.6%, up from 22.5% in 1999, at the expense of two centre-right parties, the Free Democrats (FDP) and the Christian People's Party (CVP). The SVP is now the biggest single party in the lower house of parliament, holding 55 of the 200 seats. At the other end of the political spectrum, the Social Democrats and the Greens also gained some ground (see chart 1).



A gain of 4% in the share of the vote may not sound like a seismic shift, but Swiss politics is famous for being boringly static, so this was a big event. Not that it came entirely unannounced. After decades of relative immobility, the party landscape started to shift in the early 1990s, when the SVP gained some ground on its rivals. By 1999 it had overtaken the two big centre parties and drawn level with the Social Democrats, up to then the biggest single party.

The “magic formula” devised in 1959—a gentlemen's agreement that gave two cabinet seats each to the Free Democrats, the Christian People's Party and the Social Democrats respectively, and one to the SVP—began to look inequitable. The SVP demanded a second ministerial seat, but the other parties refused to give way, arguing that such things should not be rushed.

After last October's election, however, in which the SVP made great strides not only in its German-speaking heartland but in French-speaking areas as well, the status quo became impossible to defend. This time the SVP not only asked for two cabinet seats but insisted that one of them must go to Mr Blocher, the head of the party's powerful Zurich branch and to all intents and purposes its national leader. Failing that, the party said, it would go into opposition, whatever that might mean.

So after much huffing, puffing and posturing all round, a “new magic formula” was duly devised and the SVP got its two ministers, including Mr Blocher (even though, unusually, that meant booting out a blameless minister from the Christian People's Party, Ruth Metzler).

From the fuss made about the SVP's election success, both in Switzerland and abroad, you might have thought that a new political force had suddenly popped up from nowhere. In fact the SVP has had a minister in the cabinet since 1959, and Mr Blocher himself first entered the federal parliament as member for Zurich in 1979. What is new is the much more strident nationalist tone his party has recently adopted, and the voters' enthusiastic response to it.

Mr Blocher has been widely compared to far-right leaders in other countries, such as Austria's Jörg Haider and France's Jean-Marie Le Pen, but he himself rejects such comparisons, instead claiming political kinship with Edmund Stoiber, the leader of the Bavarian arm of Germany's Christian Democrats, and—rather more surprisingly—with Italy's prime minister, Silvio Berlusconi.

Like Mr Berlusconi, Mr Blocher is a highly successful businessman. His father and grandfather were ministers in the Protestant church. He wanted to be a farmer, but there was no money to buy a farm. So he trained as a lawyer, acquired and developed his own chemical company, Ems Chemie, and became a multi-millionaire. At the same time he pursued a career in politics (which in Switzerland is a part-time calling except for cabinet members), getting himself elected first at local, then at regional and eventually at federal level. Now that he is in the cabinet, Mr Blocher has complied with strict Swiss rules about conflicts of interest by handing over his business to his four children.

Not one of us

Why does he put so many backs up? Partly it is a question of style. Swiss politicians tend to be sensible, polite and a little grey. Mr Blocher is an outspoken and charismatic maverick. Sometimes his personality has worked against him. When he laid claim to the SVP's one and only cabinet seat in 1999, he was bypassed in favour of his party colleague Samuel Schmid, a much more accommodating figure whom Mr Blocher subsequently branded as “only half an SVP minister”. That helps to explain Mr Blocher's insistence on a cabinet seat after his party's latest election success. At 63, he was already relatively old by the standards of Swiss politics. He simply could not afford to wait any longer.

It is clear that the party owes its present prominence largely to Mr Blocher's leadership, but the substance of the SVP's policies also seems to have struck a chord with the voters. Most eye-catchingly, the party has argued for a more restrictive immigration policy, on the ground that, with foreigners already making up 20% of the population, Switzerland does not have room for any more. It has also claimed that foreigners are to blame for a rise in crime. Some of its posters in the election campaign were downright racist.

The broad message the party is putting over is that Switzerland should batten down the hatches. That goes for relations with the EU as well. The SVP says it is all for European co-operation, but is dead set against EU membership. Technically, Switzerland's EU application is still on the table after a failed attempt to join in 1992, but the party would like to see it removed. Claudio Zanetti, secretary of the SVP's powerful Zurich branch, says a formal withdrawal of the application would have “a useful symbolic value”. The main objection is not practical but ideological: the SVP simply does not feel that membership would be compatible with the country's direct democracy. It wants Switzerland to remain a special case—confident, free, independent and strictly neutral.

On the economic front, the party's policies are closer to the Swiss mainstream. It wants more competition and entrepreneurship, as well as lower taxes and public spending to keep the state small. But it is not so keen on rigorous free-market policies for Switzerland's highly subsidised farmers, who are among its core supporters, and wants the country to be as self-sufficient in food as possible.

Amid all the excitement over the SVP's recent success, it is easy to forget that the party commands little more than a quarter of the popular vote. Party officials blithely predict that in the next federal election in 2007 its share will rise above 30%. Perhaps. But first the voters will want to see how Mr Blocher performs as the team player that every minister must of necessity become. He will have to tread a fine line between getting some of his party's policies put into effect and making a nuisance of himself.

Paradoxically, given the SVP's resistance to European ways, Mr Blocher's entry into the cabinet is likely to make Swiss federal politics a tad more European. Swiss politicians have traditionally resolved their

differences through negotiation and compromise. In future the process may become a little more ideological and confrontational. But whatever cabinet or parliament says, the ultimate judge on all big political decisions will still be the one and only Swiss sovereign: the people.

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Voting as a way of life

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Being a Swiss citizen is hard work. Well, that's democracy

AP

We have 700-odd years of practice

“FORTUNATE events have put me at the head of the French government, but I would consider myself incapable of governing the Swiss,” Napoleon Bonaparte told a Swiss delegation in 1802. “The more I think about your country, the more convinced I become that the disparity between its constituent parts makes it impossible to impose a common pattern on it: everything points to federalism.”

Napoleon came and went, but the Swiss disparities remained. They culminated in a religious quarrel that led to a civil war in 1847. Fortunately this turned out to be short and not very bloody. The new constitution drafted in 1848 (loosely modelled on the American one), which became the foundation of modern Switzerland, enshrined the principles of a federal system and direct democracy, and was itself ratified by referendum.

Switzerland's federalist past goes back much further, however: to August 1st 1291. After the death of Emperor Rudolf I, a particularly unpopular Habsburg overlord, the people of three small cantons in central Switzerland, Uri, Schwyz and Unterwalden, got together to conclude a co-operation pact, the *Bundesbrief*. In 1315 the three cantons won the battle of Morgarten, prevailing with a tiny band of men against a huge Habsburg army, which encouraged other cantons to join them. In time these voluntary agreements formed the basis of the Swiss *Willensnation*—a nation created by acts of free will by a diverse people.

The Swiss still use that term, albeit with a slight weariness. It takes an act of will, they say, to hold together a country made up of so many disparate elements. Switzerland has four official languages, German (spoken by 64% of the population, mostly in a number of Swiss variations that Germans find hard to understand, though the written version is the same), French (20%), Italian (6%) and Romansch (0.5%), as well as a large foreign population that adds further variety to this mix of tongues.

Superimposed on those divisions are geographical, ethnic and religious ones that do not necessarily coincide with the linguistic ones. Lifestyles in, say, German-speaking Basel, French-speaking Geneva and Italian-speaking Lugano appear to have more in common with those in their respective big neighbours than with each other. It is a wonder that the place has not fallen apart long ago.

For that, the Swiss have their political system to thank. Federalism and direct democracy are not just desirable political features; they are a necessity to keep the country together, says Annemarie Huber-Hotz, Switzerland's federal chancellor and guardian of its political institutions. The key to it all is that old tongue-twister, subsidiarity, meaning that all decisions must be taken at the lowest appropriate level.

Swiss democracy works from the bottom up. Starting at the lowest level, much of the action takes place in Switzerland's 2,800-odd communities. Some of these elect their own parliament, but most have a traditional community assembly (which generally meets indoors these days, though a few still assemble on the village green) where all citizens over 18 can turn up and speak their mind. The communities are responsible for local schools, social services, energy supply, roadbuilding and such like—mostly modest stuff, but people like having a say in such matters. “I feel a lot happier about paying my local taxes if I can see where they are going,” explains a senior banker.

The next tier up consists of the cantons, the original states that in 1848 formed the Swiss federation. There are now 26 of them, and they vary enormously in size and population, from a mere 15,000 people in the smallest, deeply rural Appenzell Inner-Rhoden, to 1.2m in the biggest canton, Zurich. But each of them has its own constitution, parliament, government and courts, and each is responsible for a wide range of services, from education to policing. And even the smallest canton enjoys considerable political power. Each is entitled to at least one seat (the bigger ones get two) in the 46-member upper house of parliament that represents the cantons, and at least one seat in the 200-member lower house of parliament. The small cantons also get a disproportionate say in referendums on important national issues (of which more below).

The top, federal, tier is responsible for such things as foreign and security policy, national legislation, and customs and currency matters. The Swiss have always aimed to keep this tier as small as possible, but have recently found it increasingly hard to control federal expenditure. Very roughly, the breakdown of spending among the different tiers is around 30:40:30. Each tier raises its own taxes, but there are also transfers of funds within and between different levels of government.

The people's will 2

Selected Swiss referendums

Date	Issue	Outcome (%)
Sep 1990	Moratorium on building nuclear power stations	Yes (54.5)
Mar 1991	Reduce active and passive voting age to 18	Yes (72.7)
May 1992	Join Bretton Woods institutions	Yes (44.2)
May 1992	Permit civilian service for conscientious objectors	Yes (82.5)
Sep 1992	Build new Alpine railway tunnels	Yes (63.6)
Dec 1992	Join European Economic Area	No (50.3)
Sep 1998	Road charges for heavy lorries	Yes (57.2)
Apr 1999	New federal constitution	Yes (59.2)
Jun 1999	New asylum law	Yes (70.6)
Jun 1999	Heroin on prescription	Yes (54.4)
Sep 2000	Control immigration	No (63.8)
Mar 2001	Yes to Europe	No (76.8)
Dec 2001	Abolish army	No (78.1)
Mar 2002	Join United Nations	Yes (54.6)
Mar 2002	Shorten working hours	No (74.6)
Sep 2002	Open electricity markets	No (56.2)

Source: Confoederatio Helvetica

Vote early, vote often

So far, so familiar from other federal countries, except that Switzerland devolves more activities and more tax-raising powers than most to lower levels of government. However, the Swiss cast their vote not only in federal, cantonal and communal elections but also in federal referendums on specific issues three or four times a year, as well as in cantonal and communal ones. Adding all these obligations together, this means they may have to pop along to the polling station (or, more likely these days, cast their vote by post) every few weeks to decide on anything from building a local bypass to joining the UN.

All amendments to the constitution and other big changes proposed by parliament must be put to a referendum, and need a double majority, both of voters and of cantons. The Swiss are quite pragmatic about their constitution. The original 1848 constitution was comprehensively revised in 1874, and an entirely new one was approved by referendum in 1999.

For new laws or changes in existing ones, as well as some international treaties, a referendum is optional, and is held only if objectors can collect 50,000 signatures within 100 days. The main effect of an optional referendum is to slow things down. Threatening to mount one can be a useful way of getting a proposal modified before it is passed.

But Swiss voters can do more than pour cold water on other people's schemes. They also have the right to launch initiatives of their own, provided they can collect 100,000 signatures in support of their proposal within 18 months. Such initiatives have a low success rate: typically, only one in ten gets through, whereas proposals put forward by parliament have a one-in-two chance of succeeding. But they provide an airing for grievances, and if they do not succeed their supporters usually accept the people's verdict. Sometimes even the failures are instructive.

When important issues are turned down, they are often put to the vote again after a decent interval, say a decade or two, and sometimes win a majority in the end. Universal voting rights for women, for example, were heavily defeated in 1959 but were passed by a two-thirds majority (of an all-male

electorate) in 1971. Likewise, Swiss membership of the United Nations, which was decisively turned down in 1986, was approved in 2002 with a small majority. The creation of the new canton of Jura in 1979 required several referendums, first to separate it from the canton of Bern and then to allow parts of it to make their own arrangements, but it settled local unrest that had turned to violence.

All this direct democracy is hard work for Swiss voters. Ahead of any referendum, they are supposed to read piles of documents to inform themselves about the issue. Some referendum campaigns are sponsored by interest groups that spend a good deal of money on publicising their cause, though a few have been won with very little promotion. Some of the subjects may be of no great interest to particular voters, others may be too technical to be readily understood. A referendum in 2002 to open up Swiss electricity markets to competition was lost even though the proposal seemed to offer a way of bringing down the country's high and locally very variable electricity prices. Its promoters remain convinced that the proposal went above many of the voters' heads.

In recent years Swiss voters have been getting less enthusiastic about doing their civic duty. In federal elections turnout has declined to around 45%, from 80% a century ago, and in federal referendums it is now around 40%, rather than the 50-70% it averaged in the first half of the 20th century. In cantonal and local votes even fewer people turn up.

There are several perfectly reasonable explanations for this. First, the number of referendums has greatly increased as interest groups have learned how to use them as political weapons, leading to growing voter fatigue. Second, the enfranchisement of women in 1971, while doubling the number of voters, noticeably reduced turnout. That is what you would expect: new groups of voters have always been slow to take up their rights. Third, as people work harder, travel more and are busier than they used to be, they seem less inclined to take part in the political process. Participation among the young is especially low, leading to worries that the voting habit may be dying out.

None of this means, though, that the Swiss have gone off the whole idea of direct democracy. Considering how often they are expected to cast their vote, an average turnout of 40% still seems pretty remarkable. Most people appear to put a high value on their right to influence specific political decisions, even if they do not exercise it every time.

The system ensures that all big issues are thoroughly aired, and that the decisions eventually reached are generally sensible and command widespread support. It may be slow; it may sometimes get hijacked by special interests; and it may need a little tweaking. But it still seems to work a lot better than anything else.

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Split personality

Feb 12th 2004
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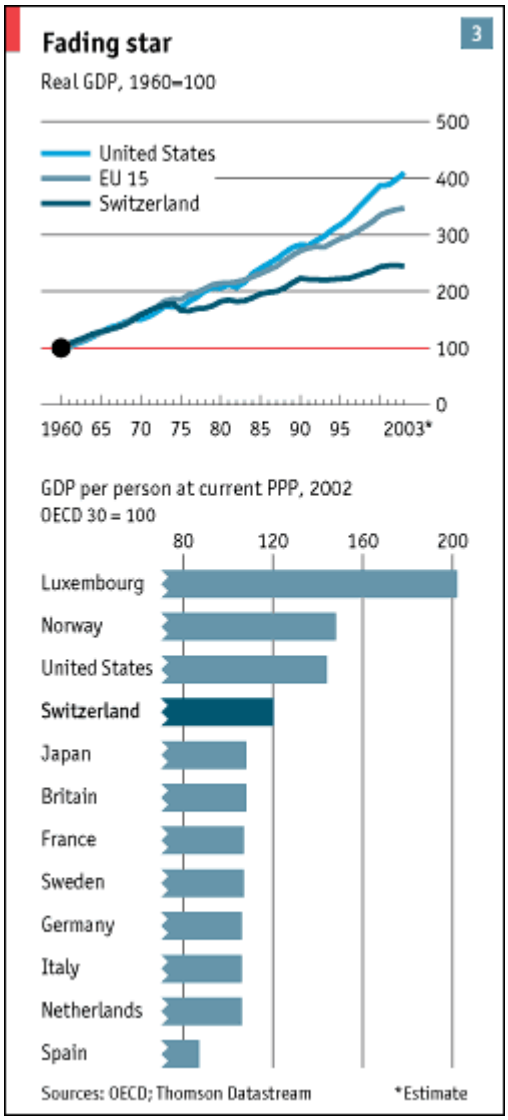
There is not just one Swiss economy, but several. Some are more impressive than others



AFTER more than half a century as the richest country in the world, Switzerland has lost the crown. To be sure, the windows in Zurich's Bahnhofstrasse are still full of furs and jewellery too grand to display price tickets. But measured by GDP per head at purchasing-power parity, the Luxembourgers, the Norwegians and the Americans are now richer than the Swiss, and others are close behind (see chart 3). What went wrong?

The first thing to note is that the Swiss are not actually getting poorer; it is just that other countries are getting richer faster. Switzerland started with a huge advantage after the second world war because almost all its infrastructure had remained in one piece. But as other countries started rebuilding their economies, the advantage gradually diminished. According to figures calculated by Angus Maddison, an economic historian, Switzerland's income per head in 1950 was 80% above the European average. But by 1998, its GDP per head at purchasing-power parity was only 14% above the European average.

Certainly, Switzerland's recent growth rate seems to have been exceptionally slow. Average annual growth in GDP for the past two decades has been 1¼%, less than half the OECD average. During the 1990s, real GDP per head remained absolutely flat, whereas in Britain and America it grew by around 2%. This has caused some Helvetic puzzlement. After all, the country continues to feel comfortably and increasingly wealthy. The economists got to work, and concluded that things were not as bad as they looked.

The low growth of the past two decades is “something of an optical illusion”, says Ulrich Kohli, chief economist at the Swiss National Bank. In a recent paper, he argues that it is partly explained by a huge improvement in Switzerland's terms of trade, of 34% between 1980 and 1996. Better terms of trade allow a country to export less for any given quantity of imports, or import more for any given quantity of exports. The resulting current-account surplus is solid enough, but by definition it does not show up in the real gross domestic product. It is, however, reflected in gross national income figures, which show that real annual growth over those 16 years has on average been 0.6% higher than reflected in the GDP figures.

The true figure may be even more cheerful than that. Bernd Schips, an economics professor at the Swiss Federal Institute of Technology in Zurich, says that recent changes in the way the GDP figures are calculated, and incomplete labour-force figures, may have been another factor in making the figure for GDP growth per person look lower than it is.

Besides, Switzerland's growth paradox is anything but new. As Mr Kohli points out, the country's average real growth per person lagged behind that of most other countries for the whole of the 20th century. Yet even though Switzerland in the 19th century was poor compared with most of its neighbours, it ended up very rich half a century later. It seems to be the tortoise that always wins the race.

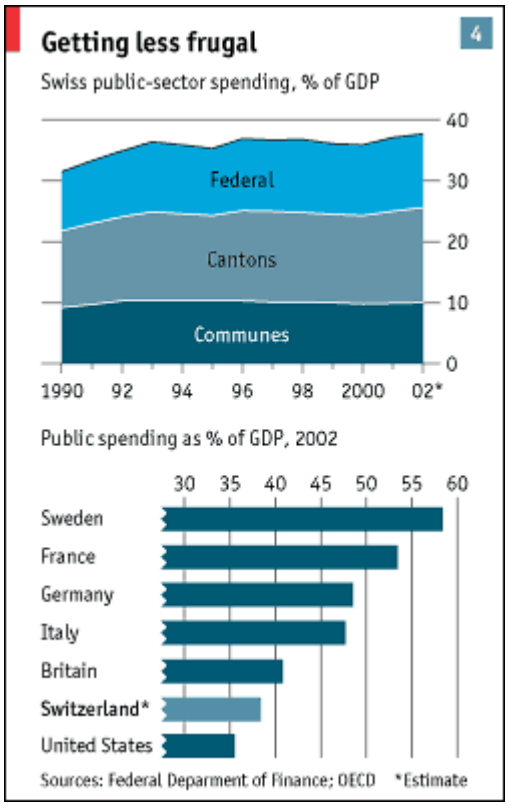
This time, however, even if some of the lack of growth can be explained away by technicalities, there

remains plenty of cause for concern. Last year the economy probably shrank a little, and this year it will do well to grow by 1¼%, according to the OECD's latest report on Switzerland. Unemployment, at 4% and rising, is high by Swiss standards. Unhelpfully, the economic cycle in the financial-services industry, which usually runs to a different timetable from the rest of the economy, has coincided with everyone else's this time.

There is only so much the Swiss can do to help themselves. One Swiss franc in two is earned abroad (from exports of goods and services, income from direct investment and so on), and if most of the countries they trade with are doing badly, they cannot expect to do much better. Some 60% of Swiss exports go to members of the EU, and much the biggest chunk of that to Germany, which has had plenty of its own problems of late.

But not all of Switzerland's economic troubles come from abroad. One big home-made problem is a steep rise in recent years in public spending at all levels of government—federal, cantonal and communal—which has pushed up the public-sector deficit. The country has always prided itself on its small government, and state spending as a proportion of GDP is still smaller than in other European countries, but the gap is narrowing (see chart 4).

The main culprit has been an alarming increase in social-security spending. The outlay on health care, for example, is now well over 10% of GDP, double its level 30 years ago. At the same time a lot more money is going on disability pensions, probably not because the health of the Swiss has suddenly taken a turn for the worse but because definitions have been relaxed. Spending on retirement pensions too is going up, with worse to come in the decades ahead as the population ages.



Labour productivity has grown very slowly in recent years. This is partly because interest rates are low and capital is cheap, so most of the obvious productivity-raising investments have already been made; and partly because in so rich a society much of the growth in demand is not for goods but for services, many of which cannot easily be rationalised.

Critics say there is not just one Swiss economy but at least two: the efficient export sector, dominated by large, internationally competitive companies, and the inefficient domestic sector that survives only because it is highly protected. Thomas Held, who runs Avenir Suisse, a think-tank financed by Swiss multinationals, lists no fewer than four different Swiss economies: the global companies based in Switzerland that create much of the country's wealth; the competitive and innovative small and medium-sized outfits that live on exports; the state-owned or semi-privatised sector, such as the post office, the telecommunications operator (Swisscom) and the electricity industry; and the plethora of small domestic enterprises with lowish productivity in retailing, construction, tourism, farming and so on.

The cream of Switzerland

The first, big and international, sector of the economy is impressive by any standards. For a country of its size, Switzerland has an unusual number of large multinational companies. The list includes big banks such as UBS and Credit Suisse; big insurance companies such as Zurich and Swiss Re; Nestlé, a huge multinational food company that grew from small beginnings in Vevey on Lake Geneva more than 130 years ago; Novartis and Roche, two world-class pharmaceutical companies; and Swatch, the company that resuscitated the Swiss watch industry after a nearly terminal assault by cheap quartz watches from East Asia in the 1980s. A few big companies have been accused of oligopolistic practices, and some have had their troubles, but most are now doing well.

They are there because Switzerland has plenty to offer such firms: political and economic stability; an attractive tax and regulatory regime; well-developed capital markets; good communications; an educated and flexible workforce; and an excellent quality of life. They make a huge contribution to the economy but a much smaller one to domestic employment, accounting for well under 10% of Swiss jobs,

because much of their business is abroad.

The second category covers small, nimble companies in sectors such as engineering, biotechnology, medical instruments and watchmaking that spend a lot on R&D and export most of their output. Again, their share of domestic employment is relatively small, but their economic contribution is significant.

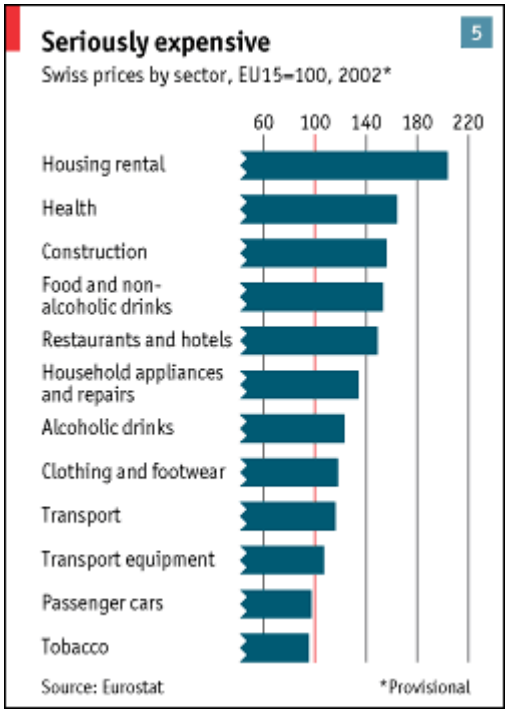
The third group, state-owned or semi-privatised enterprises, which account for about a quarter of all jobs, could probably be reinvigorated by further privatisation, but is unlikely to display great dynamism.

The bulk of Swiss employment, around 60%, is in the fourth economy: small and medium-sized builders, craftsmen, retailers, hoteliers, restaurateurs, consultants and so on. They are safe not only from international competition, but often from rivals nearer home too. The Swiss federal government has been trying for decades to create a truly integrated domestic market, with mixed results. Swiss doctors and lawyers are now able to move freely from canton to canton, but plenty of restrictions remain elsewhere. Chimneysweeps and plumbers, for example, operate cantonal cartels. If you try to engage a plumber from another canton, he will refer you to a list of approved operators for your own canton—who will do a fine job, but charge you a packet.

To a foreigner, almost everything in Switzerland is hair-raisingly expensive. According to the central bank, this is not because the Swiss franc is overvalued, but because the domestic cost base is high. The high wages paid by the internationally competitive sector of the economy filter down to other, less efficient companies. Food costs a lot because Swiss farmers are not large enough to operate at optimum efficiency, and Switzerland's tariffs on imports of agricultural goods average around 50%. Tariffs on manufactured goods are low, but technical barriers can be pretty effective at keeping out imports. A basic washing machine, for example, costs two or three times as much in Switzerland as it does in France or Germany.

Measured by a standardised basket of goods and services, prices in Switzerland are nearly 40% higher than the OECD average, whereas in neighbouring France and Germany they are only 10% higher and in Italy 10% lower. In a small country with fairly open borders, that encourages a lot of Swiss families to nip across the border to buy their groceries more cheaply.

Chart 5 shows how Swiss price levels in particular sectors compare with the EU average. It is a textbook illustration of economic forces at work. Where Swiss taxation is below that in other countries (eg, tobacco, cars, fuel), prices are lower than in the EU. Where international competition is strong and there is no special tax treatment (eg, clothes and shoes), prices are much the same. But where there is no international competition (health-care services, rents), strong protection (food) and/or a high labour content (construction, hotels, restaurants), prices are much higher.



The least market-oriented sector of the Swiss economy is agriculture. Some of this is a hangover of the second world war, when Switzerland wanted to be as self-sufficient in food as possible. It still produces three-fifths of its own food. That may reassure its citizens about the reliability and quality of supplies, but it is not the most cost-effective way of feeding them.

Still, the farmers are not just there to produce food. They are also paid to look after the countryside. Where it is not picturesquely wild and mountainous, the Swiss countryside does indeed look manicured. However, the average Swiss farm is too small to be economic. The agriculture ministry reckons that the minimum herd for making a decent living is 60 cows, but the average Swiss farmer keeps only half that number. The life is hard, and when farmers get too old for it they often find that their children do not want to take over. Between 1985 and 2000 the number of people working in agriculture declined by 32%, to 200,000, and the number of farms dropped by 29%, to 70,000.

The Swiss government subsidises agriculture and forestry even more extravagantly than does the EU with its famously profligate agricultural policy. But some progress is being made. Milk quotas will be gradually phased out between 2006 and 2009, and farmers are now being paid directly for non-

commercial activities such as caring for the environment, instead of indirectly through farm prices. But these reforms will do little to bring down consumer prices.

High domestic prices hurt some of Switzerland's export industries, particularly tourism. The economics ministry recently commissioned a study comparing the cost of a standard skiing holiday in a medium-class hotel in Switzerland with the same sort of thing in Austria, and found that the Austrian package was one-third cheaper. That sort of price differential must put many people off.

But at least prices are stable. The Swiss central bank's inflation target, defined as a range of 0-2%, has been met every year since the mid-1990s, after a scary period in the early 1990s when inflation topped 6½%. Prices actually turned down for a brief period in 1998, causing worries about Japanese-style deflation. But, in contrast to Japan, Swiss demand held up well, and those deflationary fears have now passed.

Switzerland's biggest competitive advantage is its people, who are well-educated, sensible, conscientious and hard-working. Labour-market participation is among the highest in the world, around 90% of those of working age (though this includes many part-timers, particularly among women). Swiss workers put in long hours, if not as long as in America, and take shortish holidays. A proposal for a 36-hour week was turned down in a referendum in 2002. Moreover, in contrast to neighbouring countries, where early retirement is widespread, most people work right up to pension age.

Swiss workers also hardly ever go on strike. Ever since the two sides of industry reached a peace agreement in the 1930s, the number of days lost through labour disputes has been negligible. And pay increases in recent years have been modest, reflecting the tougher economic environment: nominal wages in 2001 went up by 2.5% and in 2002 by only 1.8%.

So far as employers are concerned, another good thing about Swiss workers is that they can be fired when necessary. They will get unemployment pay, but not for very long, and they have to show that they are genuinely looking for work. Left-of-centre politicians such as Andreas Gross, a Social Democrat MP, describe the system as “brutal”. But it may help to explain why unemployment is around 4% and not 10%, as in France or Germany.

There is no doubt that the Swiss are an industrious people. Yet note, too, that a fifth of the population and a quarter of the labour force are foreigners, who seem to be working every bit as hard as the natives. Despite all the scaremongering about asylum-seekers from far-flung parts of the world, more than half of these foreign workers come from EU countries (and another quarter or so from former Yugoslavia). Under a bilateral agreement negotiated with the EU, from the middle of this year all European citizens will be entitled to work in Switzerland. Nobody is expecting a rush, but this change will make the country a little less special still.

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Trouble in the air

Feb 12th 2004
From The Economist print edition

Does Switzerland need a flag-carrier?

FOR an airline that had sold itself on the very Swiss characteristics of punctuality and reliability, it was an awful way to go. The grounding of Swissair, Switzerland's flag-carrier, in October 2001 left thousands of passengers stranded all over the world. With hindsight, it was clear that Swissair's strategy of rapid expansion by taking stakes in smaller airlines had been misguided. But many felt that if help—from the government and/or the banks—had been forthcoming after September 11th, the collapse could have been avoided altogether, and with it a perceived failure of Switzerland Inc.

This meant an awkward start for the airline's successor, Swiss, formed from the remnants of Swissair plus Crossair, a regional carrier. Moreover, Swiss was launched straight into the huge slump in the world's aviation industry caused by the terrorist attacks on America. In its first year of operation the newcomer lost nearly SFr1 billion. Last June it embarked on a round of savage cost-cutting, and last September it joined the oneworld alliance, a consortium led by British Airways and American Airlines, which made it look a little less exposed. But its future still seems anything but secure.

Does Switzerland need a flag-carrying airline at all? The country's government, its big banks and some of its big multinationals clearly thought so, because they all chipped in to get Swiss off the ground. They argued that the heavily export-oriented Swiss economy needed frequent international air connections. Critics say that a competitive market would have provided such connections anyway if they were profitable—and, if not, there was no point in subsidising them.

One unspoken reason for investing in Swiss was that, without a national airline to feed it, Zurich airport would look a much less convincing international hub. The airport is in the middle of a SFr2.2 billion revamp, approved by a cantonal referendum in 1995, when international aviation was still booming. Over the next few years the airport is due to expand its capacity to 30m-40m passengers a year, double the present number. If Swiss came to grief, so would Zurich airport, and with it many of the 100,000 jobs that, directly or indirectly, depend on it.

As it happens, the airport is already preoccupied with a more local problem that has raised a lot of hackles. The most heavily used approach route for incoming aircraft has always been from the north, over a thinly populated part of Germany, but three years ago the Germans cancelled a bilateral agreement on the use of that route, made in 1984. A compromise was turned down by the Swiss parliament, so after much toing and froing the Germans last October unilaterally imposed restrictions on early-morning flights over German soil.

Except in poor weather, incoming aircraft now have to take the southern approach over the densely populated Lake Zurich area, rousing tens of thousands of good Swiss burghers from their sleep. Many of these early-morning arrivals are Swiss's intercontinental flights from East Asia, South Africa and Latin America, which the airline can ill afford to lose.

The Swiss residents have threatened legal action, but the Germans refuse to backtrack, and there is no quick end in sight. A team of mediators has been appointed, but is expected to take at least two years to finish its work. Alain Thierstein, a professor of planning at the Swiss Federal Institute of Technology in Zurich, thinks the row could have been avoided if those most affected by the noise, including Germans, had been paid compensation early on; and that if Switzerland had been a member of the EU, the problem would have been solved long ago.

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The world's piggybank

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From The Economist print edition

Filthy lucre is out, clean lucre is in

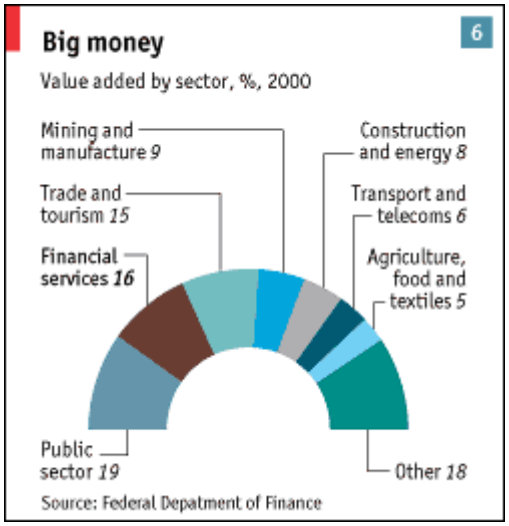
AP

Money matters

IF A man from Mars were to visit Switzerland, he might conclude that its inhabitants were obsessed with money. Banks are everywhere, not just in the main financial centres—Zurich, Geneva and, on a smaller scale, Lugano—but up and down every high street. These temples to mammon tend to be suitably marbled, display some fine indoor plants and attract a steady stream of customers. Little knots of people gather in front of the screens displaying the latest share prices. Most of them look comfortably ordinary rather than loaded, but you never know: the Swiss frown on conspicuous displays of wealth, and even the rich and famous travel by tram.

If the Martian were to consult the statistics, he would find his impression vindicated. They show that the money business forms the most important single component of the Swiss economy. In the country as a whole, the financial-services industry makes up about 11% of GDP (and more than twice that in Zurich and Geneva). Draw the definition a little wider to include insurance and pension funds, and you get to a 16% share of GDP, ahead of commerce and tourism at 15% and engineering at 9% (see chart 6). The financial sector employs about 220,000 people in Switzerland itself and a further 190,000 in other countries, mostly in high-quality, well-paid jobs.

The recent economic downturn has caused some downsizing, but insiders say there is still plenty of capacity, indeed rather too much of it. The giants of the industry, UBS and Credit Suisse, are doing all right, and some small niche operators too are making a comfortable living, but those in the middle are increasingly getting squeezed. Customers have become more demanding, more concerned about performance and more risk-averse, so their banks are having to work harder for them.



The number of banks has shrunk from 495 in 1990 to 356 at the end of 2002, and further consolidation, particularly among medium-sized operators, looks certain. Big banks are opening more branches abroad, offering their foreign customers a choice between their services in Switzerland (“offshore”) and in their home country (“onshore”). Well over half of all banking business in Switzerland comes from outside the country.

The country's traditional strength has been, and remains, in private banking. “Nothing really changes here,” says Ivan Pictet of the eponymous private bank in Geneva. “There are 60 or 70 countries with surplus money, and six or seven financial centres with expertise in wealth management.” But he concedes that new money has recently been coming in more slowly.

Private banking is for the rich, not for the merely comfortably off. Providing a tailor-made service is labour-intensive and expensive. Mr Pictet's bank regards an investment of SFr1m-2m as the minimum to allow proper diversification of a portfolio, and its bread-and-butter clients are in the SFr2m-5m range. Add a couple of noughts, and any of the posh Swiss private banks will provide you with a personal service from another age, setting up a family office for you, making your travel and hotel arrangements, even laying on art experts if that is what takes your fancy. And whether you are a big or a small investor, a Swiss private bank will always handle your affairs with the utmost discretion.

For a small country, Switzerland attracts a huge share of international wealth. Swiss banks look after about a third of all private financial assets invested across borders, much more than any other financial centre anywhere. This generates large tax revenues, which helps to keep down taxation elsewhere in the economy. It also contributes about a third of Switzerland's consistently huge current-account surplus.

Switzerland's enduring charm as a home for the world's money rests on a combination of factors. One big attraction for foreign investors is the low probability of nasty surprises. The country is politically and economically stable, its currency is rock-solid, it has not imposed any capital controls in living memory and it has a well-functioning legal system and regulatory framework. It also has plenty of experience of looking after other people's money, which rich clients find reassuring.

Can you keep a secret?

But probably the most important competitive advantage Swiss financial institutions have to offer is banking secrecy. This dates back to 1934, when Nazi Germany started snooping around for money that German Jews had deposited abroad. The Swiss headed off unwelcome inquiries by making it illegal for banks and their employees to provide information about their clients' financial affairs, and soon found that the anonymity of a numbered Swiss bank account attracted other foreigners too.

Swiss banking secrecy came under attack after the second world war when the allies asked for German assets to be handed over. This covered not only money deposited by German Jews in Swiss banks that was never reclaimed, but also bullion of doubtful origin that the Swiss National Bank had bought from the German Reichsbank during the war. In 1946 Switzerland reluctantly agreed to hand back some 50 tonnes of gold.

As for the unclaimed Jewish funds, most of the owners had probably perished in the Holocaust, and many of their heirs were either not aware of the accounts or lacked the papers to prove their claim. The banks looked for the money, but did not seem to find much. After a lot of outside pressure, mainly from America, in 1998 they agreed on a $1.25 billion settlement to compensate the victims or their heirs. But the processing of claims has proved slow.

In recent years criticism of banking secrecy has centred on the risk of money laundering, the practice of disguising funds from illegal sources by passing them through secret accounts until their origins can no longer be traced. A federal law passed in 1997 made money laundering, and abetting it, a criminal offence. The banks were not overjoyed, because this in effect did away with banking secrecy in such cases, but it proved to be a turning point. The Swiss Federal Banking Commission, the body responsible for banking supervision, had been critical of various banks' efforts to search for funds suspected of involvement in money laundering, but concedes that procedures have since been tightened up.

Switzerland is a founder-member of the Financial Action Task Force on Money Laundering (FATF), an international body set up by the G7 group of big industrial countries in 1989. FATF has drawn up a list of measures to combat the laundering of money obtained from crime and corruption, which after September 11th was widened to include terrorism as well. In 2002 the IMF, in the most recent of its periodic reports on Switzerland's financial sector, said that Swiss anti-money-laundering measures met the highest international standards, and that the sector's regulation and supervision were effective and solid.

The Federal Banking Commission is in the middle of a reorganisation that will make it more independent of government. Following recent problems at several big Swiss insurance companies, the commission will also take charge of the insurance sector, as well as keeping a tighter watch on the performance of audit firms, some of which it feels have been getting too close to their clients.

Swiss banks are careful to say that they can never be 100% sure of keeping out undesirable customers, but insist that it has become much harder for such people to park their money in Switzerland. “There has been no money arriving in suitcases for at least ten years,” says a senior executive at one of the big banks. “But we need to be seen to be cleaner than clean.”

Faced with that business imperative, the Swiss have changed their ways. These days a numbered Swiss bank account is not what it was. When someone opens an account, the bank has to satisfy itself that he is who he says he is. If the money comes from one of a list of high-risk countries, or amounts to more than SFr10m, the bank must exercise due diligence and cross-check information. If there are suspicions that the money is connected to a crime, the bank has to co-operate with law-enforcement authorities at home and abroad. Swiss bankers claim that their rules are now tighter than those of many of their

competitors abroad, including Britain and the United States.

Better tax than snoop

But the real issue in Swiss banking secrecy is taxation, says Daniel Zuberbühler, the Federal Banking Commission's director. This is of no concern to domestic investors, who already have a 35% withholding tax deducted from their interest and dividend payments. But foreign holders, so far, are paying no tax, and whether they report their Swiss income to their own tax authorities is up to them.

This looks like an opportunity to get round the taxman, and the Swiss are unrepentant about offering it, although they insist that they would not aid and abet anything illegal. In their own country, tax fraud involving forging documents and making false statements is a criminal offence punishable by jail, and if the Swiss authorities receive inquiries from abroad about such offences they will co-operate. But simply omitting to tell the taxman about income received is another matter. In Switzerland this is punishable only by a fine and carries little moral opprobrium.

So far as anyone can tell, the Swiss themselves are pretty honest about filling in their tax returns, but they do not see it as their business to enforce other countries' tax codes. After all, muses one senior official at the finance ministry, the tax regime in a foreign investor's home country may be iniquitous, or designed to enrich corrupt officials. Better not to get involved.

This argument has not gone down well with the EU, which for the past 14 years has been trying to persuade Switzerland to adopt a proposed pan-European system of sharing information about foreign interest payments. That plan would blow Swiss banking secrecy out of the water. But the EU has been very insistent, so last summer Switzerland agreed on another solution, along with Belgium, Luxembourg and Austria, which also wanted special deals.

From the start of next year, such interest payments are due to become subject to a withholding tax, starting at 15% and rising to 35% by 2011. Three-quarters of the money thus collected will be remitted to the tax authorities of the investor's home country. If the investor feels he has been taxed too much, he is free to provide his own tax authorities with the relevant information and claim some of the tax back.

Problem solved? Not quite. For a start, the deal was negotiated as part of a package of bilateral agreements between Switzerland and the EU which has yet to be tied up. But even if it goes through as intended, it may not deliver all it promises. This is because it covers only interest payments, not dividends, and only natural persons, not companies. Any Swiss bank worth its salt should be able to devise instruments that offer a way round the new rules.

How would Switzerland's financial-services industry fare if the country ever joined the EU? Bankers are generally unenthusiastic about membership. For a start, it would probably mean the end of the Swiss franc, which offers an alternative to investors who would rather not keep all their eggs in one euro basket. The Swiss franc is now the world's fifth most important currency for international loan issues, after the dollar, the euro, the yen and sterling. Equally important, ultra-low Swiss interest rates (three-month LIBOR, the rate at which banks lend to each other, is currently 0.25%) would have to rise to European levels, increasing the cost of capital.

When a group of top Swiss bankers recently studied the impact of the euro on their industry, they concluded appreciatively that the new European currency had made life easier and more transparent for Swiss banks. But they also came down strongly against Switzerland joining.

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Splendid isolation

Feb 12th 2004
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The Swiss still prefer to go it alone

Reuters

A shrinking band

“I WANT you to understand that Switzerland is not an island,” says Micheline Calmy-Rey, the Swiss foreign minister, and starts to reel off a list of her country's recent foreign-policy activities: entry into the UN, narrowly approved in a referendum in 2002 (and now, according to the opinion polls, supported by 80% of the population); a busy programme of bilateral negotiations with the European Union; assistance provided in the Balkans; even financial and logistical support for a privately negotiated peace plan in the Middle East known as the “Geneva Accord”.

As a small, independent and neutral country, with no historical baggage or hidden agenda, Switzerland is well placed to act as an intermediary and provide good offices to other countries. The same qualities, however, also oblige it to keep a low profile in foreign policy. From a distance, the country can be almost invisible. Dieter Ruloff at Zurich University, one of only a handful of Swiss professors of foreign relations, notes that many Americans tend to confuse Switzerland with Sweden. That may say more about Americans' knowledge of foreign affairs than about the respective qualities of those two countries, but it gives pause for thought.

When the iron curtain was dismantled in 1989, Switzerland had to decide whether armed neutrality, its main foreign-policy plank, still made sense. It had served the country well for the best part of 400 years, and had proved a life-saver in the 20th century by keeping it out of two world wars—and keeping it in one piece. If Switzerland had taken sides in those world wars, the Swiss reckon, it might well have split up along cultural and language lines.

The benefits of remaining neutral in two world wars were obvious: while there was devastation all around, in Switzerland hardly anybody got killed, and the country's infrastructure remained largely intact. During the cold war, neutrality also seemed to offer some protection, but the benefits were less clear-cut, because the whole of western Europe also emerged unharmed. And now that many central and eastern European countries are about to join the EU, armed conflict in the heart of Europe looks increasingly unlikely.

To adjust to the new circumstances, Switzerland has shifted its definition of neutrality a little. It still insists that it cannot join any alliance in peacetime that would prevent it remaining neutral in the event of war, or give military support to any party to an armed conflict. But it is now prepared to take part in any UN-backed action against those who “endanger world peace”. For example, it joined in the UN sanctions imposed on Iraq after the first Gulf war and then on Serbia, and gave the international peace force in Bosnia access over its territory. And although it has absolutely no plans for joining NATO, it is

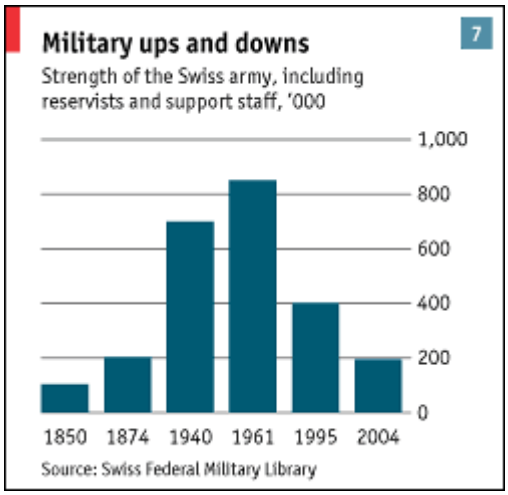
taking part in the Partnership for Peace programme to help stabilise conflict areas, and is working with other countries to combat international terrorism.

Flexible response

All this has caused a big rethink of Switzerland's defence needs. In the past, as a neutral country sitting astride important transit routes in the middle of Europe, it has felt the need to be well armed to discourage invasion, and apart from a brief period of French domination around 1800 its determination achieved its purpose. In 1874 Switzerland was able to mobilise 200,000 people. By the early 1960s, a growing population had pushed the number above 800,000—but a few decades later the external threat receded out of sight.

Sensibly, Switzerland introduced reforms in 1995 that cut the number to less than half. In another round of rationalisation now in progress, the size of the army is about to be roughly halved again. The new forces will be more flexible, more mobile, better trained and better equipped. In due course they might also become cheaper. In the transition phase, however, the cost will remain much the same, about SFr4.3 billion a year.

Switzerland gets a lot of bang for its buck by having a militia army. In principle, every Swiss man over 18 has to do military service (women get a choice), starting with a basic training period of a few months and continuing with annual refresher courses into his 40s or 50s. Soldiers still keep their uniform, their gun and their army knife at home to allow instant mobilisation. The latest reforms will make military service considerably less onerous: for most soldiers it will be all over by the time they are 26.



That is just as well, because enthusiasm for army service is waning. It used to be considered a useful tool of social integration, because recruits from all social classes trained side by side, as well as an opportunity for professional networking among the officers, who also serve part-time but for longer periods. For bankers in particular, their army contacts often proved invaluable in lining up their next job. But in the past decade or two employers have become less keen on staff being away for military training, and the networking advantages have lessened.

Because the state needs fewer soldiers, dodging the draft has also become easier. Lots of young men now claim to be physically or mentally unfit, and get away with it. The Swiss are not ready to abolish their army yet, as a couple of referendums in recent years have shown, but their support is no longer as wholehearted as it was.

But even though Switzerland's immediate neighbours no longer present a military threat, that does not mean it feels entirely relaxed about them. To be sure, they are all friends as well as indispensable trade partners. But every one of them belongs to a dynamic and evolving club of which Switzerland is not a member, and about which it is deeply ambivalent. It did put in an application to join the EU in 1992, which remains on the table in Brussels, but a Swiss referendum in the same year on membership of the European Economic Area—a sort of antechamber to the EU, inhabited by the few European countries that remain outside—was narrowly lost, and another referendum in 2001 on an immediate resumption of entry negotiations was defeated ignominiously.

Officially, the Swiss federal government is still in favour of entry, though some of its component parts, particularly the Swiss People's Party, are strongly against. For the past 15 years, Switzerland has been keeping a careful eye on EU legislation that might impinge on it, making its own legislation “euro-compatible” so that it would not get in the way of eventual EU entry. In the past few years it has gone much further by negotiating a set of bilateral agreements with the EU. These have put relations on a formal footing, obliging all levels of government to comply.

The first round of these negotiations (“Bilaterals I”), covering the free movement of people, air and land transport, agriculture, technical barriers to trade, public procurement and research, was approved by a two-to-one majority in a referendum in 2000. However, that left the prospect of continuously having to update the agreements already reached. For example, will the provisions negotiated for the free

movement of people across borders also apply to the new EU members due to join in May this year?

It also left a range of subjects yet to be dealt with, so a second round ("Bilaterals II") started in 2001 to tackle the remaining items and get to work on a few more. Some of these are particularly contentious, such as the proposed withholding tax on interest paid to EU citizens with Swiss bank accounts, and Swiss participation in the EU's arrangements for fighting crime and for asylum policy (known, respectively, as the Schengen and Dublin agreements). These new negotiations have proved sticky.

It is clear that the bilateral route is slow and cumbersome, and will prove a never-ending labour as the EU evolves and changes. Up to now the Europeans have assumed that Switzerland will join eventually, but if they conclude that it may never do so they could become increasingly unwilling to make concessions. A recent Swiss government report acknowledges that the EU's negotiating position is now so strong that Switzerland "ultimately could be blackmailed".

Wait and see

The Swiss government is now playing a waiting game. It says it wants to see how the bilateral agreements work out, and to spend more time assessing the likely effects of EU membership on matters dear to Swiss hearts, such as federalism, financial regulation, foreign nationals, agriculture and security policy. It also accepts that any renewed application to join must enjoy broad domestic support, because entry will have to be approved by a referendum.

That is likely to prove the biggest hurdle of all. The opinion polls yo-yo a lot, but even at the best of times only half of Swiss voters seem to favour EU membership, and often far fewer. The success of Mr Blocher's virulently anti-EU party in last October's election suggests that EU support is currently on a downward swing.

Even Swiss industry is far from uniformly enthusiastic about membership, despite the lure of the single market. Economiesuisse, an umbrella organisation for Switzerland's large export-oriented industries, has concluded that in economic terms EU entry will make little difference. Switzerland's economy is already closely integrated with the rest of Europe, it says, so any talk about Swiss isolation is largely about politics. In the end, the decision on membership will be a political one.

Swiss worries about EU membership are mainly about three things. The first is that Switzerland would be a small fish in a big pond. With 7m people in a total EU population about to rise to 450m, it might not get much attention. It has already noted that the EU tends to ride roughshod over smaller member countries, and frets that its special interests, such as banking and farming, would get less consideration inside the EU than outside.

Second, as a rich country coming in late, Switzerland suspects it would have to pay over the odds. Government estimates of the annual cost of membership range from SFr3.1 billion to SFr3.9 billion a year, almost as much as the country's entire defence budget. Some private calculations put the figure at nearly twice that.

But the biggest concern is over the effect of EU membership on Switzerland's political system. Were it to sign on the dotted line, the country would have to accept the EU's entire *acquis communautaire*, the body of European laws that holds the Union together, as it stands. None of this would have been put to a Swiss referendum, and none of it could be changed to suit the Swiss.

As for the future, experts say that referendums on 80-90% of the subjects they would previously have covered would still be possible. But that leaves 10-20% on which the Swiss people would have to take instructions from abroad. They may simply not be willing to do that.

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Something to be proud of

Feb 12th 2004
From The Economist print edition

Switzerland is not as special as it was—except for its political system

Alamy

Lonely as a cloud

"WHY SWITZERLAND?", asked an excellent book by Jonathan Steinberg, an academic at Britain's Cambridge University, first published several decades ago and since updated. It is still a good question, and not as straightforward as it appears at first sight. It can be read, among other things, as asking how Switzerland has become the way it is; whether its ancient and peculiar political and economic arrangements still make sense today; and, if they do, whether other countries might have anything to learn from them.

The answer to the first question is shrouded in history. As for the second, this survey has argued that in an interconnected world, even a small country determined to go its own way cannot escape geopolitical changes and global economic trends. This has meant that in recent years Switzerland has in many ways become less of a special case.

Its reputation as a shining beacon of rectitude was somewhat tarnished as details of its behaviour during and after the second world war emerged. Its politics, although still consensus-based, has become rougher and more adversarial. Its government has become bigger than many of its citizens would like—but this is partly in response to demands for a modern welfare state, which is not easy to reconcile with small government.

Its economy has proved as vulnerable as any other to the ups and downs of the business cycle, and not as uniformly efficient as the Swiss themselves like to believe. Although the country is still rich, others are catching up fast. Some of its big companies have proved fallible, and its banks have sometimes been a little greedy. Its foreign-policy platform of strict neutrality has become less appropriate in the post-cold-war world order, and its refusal to move closer to the EU has forced it to adopt complex solutions to living with the European neighbours that surround it.

One persistently special thing about Switzerland, however, is its political system. Its mix of federalism and direct democracy makes it different from any other country in the world, and affects every other aspect of life. Not that the system is perfect: too much federalism can be bad for business if it gets in the way of the internal market, and too many referendums launched by special-interest groups can be bad for voter morale, contributing to a gradual decline in turnout.

But in substance the system is alive and well, and is still delivering results. It stops politicians from assuming that they can impose decisions over the voters' heads, and it encourages citizens to keep themselves well informed on international, national and local affairs so that they can cast their ballot in a sensible way. There can be few other places where political information is so readily accessible, so well presented and so balanced.

The emphasis on consensus and popular endorsement means that politics in Switzerland can afford to be less short-term than it is in other countries. There is little scope for quick political fixes because all the parties in government have to agree, and if an issue is controversial it is likely to be put to a referendum anyway. As a result, policies that require a long-term approach can be planned without always keeping an eye on the next election.

One example is transport. Swiss public transport is a source of wonder to visitors. The trains run

frequently and on time, all the timetables are co-ordinated, and getting anywhere in the country is easy. The system may be heavily subsidised, but the same is true in many other countries, usually with much poorer results.

Congested trunk roads are more of a problem, but the Swiss are trying to do something about them. Among other things, they are investing around SFr30 billion in their main north-south rail routes, partly to speed up rail passenger traffic and partly to move all transit freight traffic from road to rail to stop an endless procession of noisy, polluting lorries through their valleys. This involves the construction of two new rail tunnels under the Lötschberg and Gotthard mountain ranges, as well as other upgrades. The plan proved controversial, but a referendum in 1992 produced a respectable majority in favour. The tunnels are now well under way.

The disadvantage of the Swiss political system is that it grinds very slowly. It also builds a conservative bias into most decisions, because most Swiss people are not gung-ho innovators. They did not agree to give women the vote in federal elections until 1971, much later than in most other rich countries. They did not join the UN until 2002, after several abortive attempts. They have put EU membership firmly on ice for the foreseeable future and may not defrost it for decades, if ever.

The Swiss tend to be apologetic about the slow pace of their political process, but argue that the results are worth waiting for: after exhaustive debate, once a decision has been made on an issue, it has been legitimised and is widely accepted.

Clearly, for the Swiss the system works. It may even help to account for the fact that they seem so content. Of course being affluent is a good start. International surveys show time and again that economic well-being and satisfaction with life are strongly correlated. Having a job, in particular, is a big factor in keeping people at ease with themselves.

Happiness is a voice in politics

But recent work by two Swiss economists provides strong evidence that a country's political system also plays a part in people's sense of contentment. In a book entitled “Happiness and Economics”, published in 2002, Bruno Frey and Alois Stutzer of the University of Zurich examined the relationship between the satisfaction Swiss residents expressed with their lives and the amount of political control they were able to exercise. Switzerland provided the perfect laboratory because different cantons practise different degrees of direct democracy. The authors concluded that the more direct political power people have, the happier they seem to be.

That may help to answer the third question raised above: whether the rest of the world has anything to learn from Switzerland. So far as its political system is concerned, the answer is clearly yes. True, the Swiss sort of direct democracy takes many years of practice. It may also be more appropriate for smaller than for larger countries. But at a time when representative democracies everywhere are suffering from disillusionment with politics, it is well worth thinking about alternatives.

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Sources and acknowledgements

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Disney and Comcast

The battle for the Magic Kingdom

Feb 12th 2004
From The Economist print edition

Does Comcast's hostile bid for Disney make sense, and will it succeed?

Get article background

WITH viciously perfect timing, Comcast, a cable-TV company, this week launched a hostile takeover bid for The Walt Disney Company, a venerable entertainment firm. Comcast is taking advantage of a particularly weak point in Disney's history. Last month Disney's most important business partner, Pixar, an animation studio, abandoned it. At the end of last year, two board members, Roy Disney and Stanley Gold, resigned and started a campaign to oust Michael Eisner, Disney's boss. On the very same day that Comcast announced its bid this week, Disney's executives started an investor conference in Florida, an occasion they had counted on to boost the company and its share price. Comcast's unexpected bid for Disney, initially worth around $66 billion will, it is safe to say, have ruined their show—though it certainly made the shares jump.

Earlier this week, Mr Eisner rejected merger talks, according to Comcast. This is “unfortunate”, the firm argued in a letter to him, because strategically the deal makes sense. Putting Comcast, which has 21m cable subscribers, together with Disney, wrote Brian Roberts, president and chief executive officer of Comcast, would unite its distribution power and technology know-how with Disney's peerless content businesses. Although the jury remains out on whether vertical integration really delivers value, other firms have already pursued such a strategy. Rupert Murdoch's NewsCorp, for instance, has satellite distribution plus its Fox content businesses. Time Warner unites cable with a film studio and television programming—as well as, thanks to its horribly bubbly merger with AOL in January 2000, the internet. But a merger between Comcast and Disney would create by far the biggest vertically integrated entertainment giant of them all, with a market capitalisation of over $120 billion, says Comcast, compared with Time Warner's current $78 billion.

Disney's board of directors said this week that it will carefully evaluate the proposed deal—in the current litigious climate, it would be crazy to do otherwise. Regulators and politicians too will scrutinise it aggressively, even though there are no obvious competition grounds for blocking it, since Comcast and Disney mostly operate in different businesses.

Weapons of mouse destruction

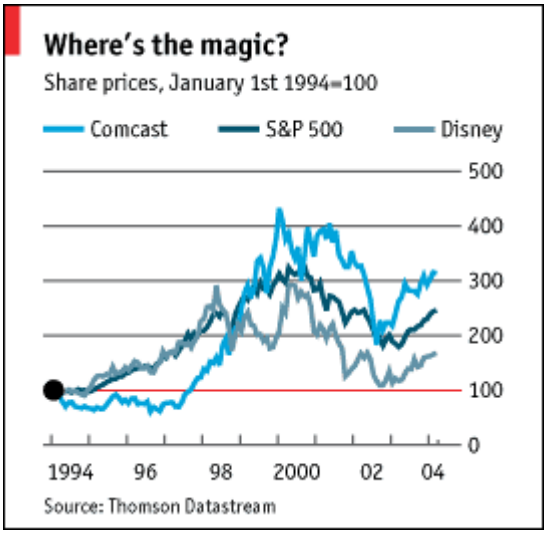
Beyond grand strategic dreams—which some observers reckon that the hard-nosed sorts who run Comcast cannot really take seriously—Disney's appeal may be that its assets are clearly greatly undervalued, whilst those of Comcast (which so far plans to pay with shares) are, arguably, overvalued. Disney's crown jewel, for instance, is ESPN, America's most-watched sports network. Comcast is particularly keen to own ESPN, as it currently has to pay high and rapidly rising fees to carry it on its cable channels.

Under Disney's current management, the firm's profits are now a third lower than they were in 1998, and its share price is at the level it was in 1997. Part of the reason for the poor performance is sheer bad luck: Disney's theme parks, which make up nearly a quarter of its revenue, suffered badly in the wake of the terrorist attacks of September 11th 2001, and because of subsequent economic weakness—they are recovering now, if slowly. A more intractable problem is the broadcast network, ABC, which Disney bought in 1995 and is still losing money. With some exceptions, Disney's movie-making has struggled for ages. It has had big hits, such as “Finding Nemo” last year, which have propelled a significant improvement in financial performance, but these triumphs have mostly been the work of Pixar, the studio which is now divorcing Disney.

Would Comcast, a family-controlled firm with few creative credentials, be any better at managing Disney's assets? Possibly. In a sort of government-in-exile conference which ran in tandem with Disney's own efforts this week to talk to its shareholders, Comcast's management described its plans to improve profits at its target, with special focus on ABC and on the cable networks. Steve Burke, a former Disney executive who used to run ABC, and who is now Comcast Cable's president, also stressed the need to revitalise Disney's animation business, which has languished of late. In addition to improved profitability, Comcast said, cost savings could be $300m-500m a year, bringing a total cash-flow boost from the merger of as much as $1 billion annually. Wall Street, to be sure, loves the deal, with one analyst, Jessica Reif Cohen, hailing it as a “perfect, brilliant combination”.

Comcast, which has a well-deserved reputation as a tough negotiator of deals, also has a fine record in arguably an even harder part of the merger process—execution. It bought AT&T Broadband, a company twice its size, 15 months ago, and so far the acquisition is working well—Comcast has managed to slow dramatically the number of cable subscribers being lost by AT&T Broadband. Indeed, Comcast is considered to be America's best-run cable operator. It has managed—thanks, again, to those negotiating skills—to get cheap programming without ruining relations with its content providers. In 2000, for instance, a war broke out between Time Warner and Disney over the cost of Disney's cable channels and ended up with Time Warner blocking ABC from transmission. Comcast, meanwhile, had the same fight with Disney, but carried it out in secret, winning what are believed to have been favourable terms.

Above all, Messrs Roberts and Burke appear to believe that most of Disney's long-term problems have one (easily removed) root cause: Mr Eisner, chairman and chief executive of Disney since 1984. In his first 13 years in charge he impressively raised revenues from $1.65 billion to $22 billion, and market value from $2 billion to $67 billion. But he lost his way some years ago, and the swelling crowd of influential critics of Mr Eisner has surely emboldened Comcast to make its bid hostile.



Mr Eisner seems to have difficulty getting on with people and thereby retaining senior talent. A long list of executives, such as Paul Pressler and Steven Bornstein, have left Disney. Mr Eisner seems to have made insufficient effort to keep up good relations with Steve Jobs, chief executive of Pixar, which has been responsible for over half of Disney's studio profits in recent years. That Mr Eisner infuriated Mr Jobs, himself a fiery and short-tempered man, was confirmed recently when Mr Jobs unexpectedly ended talks to re-negotiate Pixar's co-production deal with Disney.

Mr Jobs noted that Mr Eisner told Disney's board that, after seeing an early cut of “Finding Nemo”, he didn't think the film was as good as its others—an embarrassing incident since it went on to become the highest-grossing animated feature film of all time. Mr Eisner told the board that, once the film hit movie-theatres, the Pixar people would get a reality check and become easier to negotiate with. On another occasion, Mr Eisner called Mr Jobs a “Shiite” in a Disney board meeting, according to a board member who participated in it.

Losing Pixar should not immediately hurt Disney's results because the contract between the two firms obliges Pixar to deliver two more films, in 2004 and 2005. Wall Street analysts have thus been fairly upbeat about Disney's shares, even before the bid—the success of “Finding Nemo” and a cyclical recovery in advertising and visitors to theme parks should boost profits sharply in 2004. Also, Disney has the rights to make sequels to all the films it co-financed with Pixar, a thought that Mr Jobs said makes his executives “sick” since they will have no control over creative quality.

In the longer term, however, Disney faces a huge problem if it cannot improve the quality of its animated films: characters such as Snow White and Mickey Mouse have historically been the creative heart of the firm. Mr Jobs cruelly pointed out last week that not even Disney's marketing and brand could turn Disney's latest two home-grown animated films—“Treasure Planet” and “Brother Bear”—into successes: they both “bombed at the box office.” With Comcast in charge, would Mr Jobs reconsider the divorce?

Unhappy family

The Comcast bid provides both succour and a conundrum for two of Disney's noisiest critics, who would presumably prefer the firm to stay independent: Roy Disney and Stanley Gold, two former board members who resigned their positions in December in order to mount a public campaign against Mr Eisner. Mr Disney, the nephew of Walt, is derided by some Disney allies as a “nut”. But the support of Mr Gold—a shrewd, tough lawyer who put Mr Eisner in his job in the first place—has been helping to create a following among some institutional investors for his “Save Disney” internet campaign.

Whilst Messrs Disney and Gold—who recently published nine detailed financial questions for Disney management on their website—clearly regard Comcast's bid as vindication for their campaign, they are as yet uncertain about whether to support the takeover. Perhaps they would prefer Mr Eisner simply to go, so that the firm can remain independent, or (less attractive) a “white knight” to acquire Disney. Indeed, Comcast's offer may yet trigger either of those outcomes.

Meantime, Messrs Disney and Gold will try to persuade shareholders to oppose the election of Mr Eisner, and three other Disney directors, at Disney's annual general meeting in Philadelphia on March 3rd. So far, before Comcast bid, Mr Gold was believed to have mustered as much as 15% of Disney's shareholder vote. Messrs Disney and Gold have also attacked Disney's corporate governance and choice of directors. Investors should vote against George Mitchell, a former senator, they say, because he has been a paid consultant to Disney and because his other directorships leave him too little time for Disney. Institutional Shareholder Services, a firm which advises institutions on how to vote, added its support to Messrs Disney and Gold this week by advising investors not to vote for Mr Eisner's re-election.

Whether any plausible white knight would be a more attractive partner than Comcast is debatable; indeed, it is easy to imagine blacker knights now joining the tournament to win Disney. True, Mr Murdoch has ruled out bidding for Disney. But Viacom, Liberty Media and even Microsoft may fancy the firm. Even likelier bidders are two internet firms, Yahoo and InterActiveCorp, whose respective bosses, Terry Semel and Barry Diller, hail fom the entertainment world.

In theory, regulators might ride to Mr Eisner's rescue and block a merger of Disney and Comcast, but it seems unlikely. After the bid was announced, Michael Powell, chairman of the Federal Communications Commission, said that it would go through the “finest filter”. Mike DeWine, a Republican from Ohio and the chairman of the Senate Judicary antitrust subcommittee, said that his panel would hold hearings on the transaction. Yet Comcast says that it would make the same undertakings not to discriminate against other content firms and distribution networks that News Corp did last year when it acquired DirecTV. With luck, that should do the trick.

Mr Eisner, one of the entertainment world's great survivors, will no doubt try to fight to the death. He may offer yet more corporate governance reforms—though now his architect is off the board, the easy ones are mostly done. He will point out that Comcast's opening offer, of about $27 a share, is too low—though Comcast has surely known all along that it will have to raise its offer closer to the $35 that Lawrence Haverty of State Street Research says would tempt institutional investors. The fact is, if Disney's board really wants to keep one of the world's iconic companies independent, its best strategy may be to replace Mr Eisner forthwith. Otherwise, Comcast will soon be doing it instead.

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AT&T Wireless

Vodafone's dilemma

Feb 12th 2004
From The Economist print edition

With or without AT&T Wireless, Vodafone now has a fight on its hands

Get article background

THE word “dilemma” is widely misused. It does not simply refer to a difficult decision, but to a choice between two equally unpleasant alternatives. That is exactly what Vodafone, the world's largest mobile-telephone operator, faced this week as it debated whether or not to bid for AT&T Wireless, a struggling American firm that recently put itself up for sale. With the deadline for bids set for February 13th, there was much speculation over Vodafone's intentions as *The Economist* went to press. But whether or not the firm decides to make a play for AT&T Wireless, it now has a fight on its hands as it struggles to win control of an American mobile operator, an essential component of its strategy to establish a dominant global brand.

At the moment, Vodafone owns 45% of Verizon Wireless, the leading American operator. (The other 55% is owned by Verizon, a fixed-line telephone firm.) This is an anomaly: Vodafone usually has a controlling stake in its subsidiaries. So it would love to take control of Verizon Wireless, or buy another operator outright, in order to apply the Vodafone brand and integrate its American operations with those overseas. Surely, then, a bid for AT&T Wireless would make perfect sense? Alas, no. Worries about the impact of such a deal have wiped $17 billion off Vodafone's market value. Shareholders and managers are divided over the merits of bidding.

EPA

Can Arun Sarin swashbuckle?

The first objection is that to buy AT&T Wireless, Vodafone would have to sell its stake in Verizon Wireless, worth around $30 billion, back to Verizon. It would then find itself in a bidding war with Cingular, another operator which has already made a cash bid of $30 billion for AT&T Wireless. Even if Vodafone wins, the tax bill associated with selling its Verizon Wireless stake plus the premium needed to outbid Cingular will probably add up to $5 billion-10 billion. As Bob House of Adventis, a consultancy, observes, that is a lot to pay to swap “a minority stake in a very good operator for a controlling stake in a much less good one.”

For Vodafone would receive far less income from its new American subsidiary: AT&T Wireless is much less profitable than Verizon Wireless. It would also cost money to bring AT&T Wireless's network up to the standards of Vodafone's networks in other countries. Verizon Wireless has a modern, efficient network based on CDMA technology, which it is upgrading to provide high-speed “broadband” access. AT&T Wireless, by contrast, has a complicated patchwork of old TDMA and newer GSM and EDGE technologies. The appeal for Vodafone is that these technologies are compatible with its GSM networks in other countries. This would allow roaming between its networks in America and in other countries, something that is currently impossible (though not, it must be said, of much concern to most subscribers). It would also increase Vodafone's clout when negotiating with GSM equipment vendors.

Overall, buying AT&T Wireless would be expensive, difficult and risky—which is why many shareholders are opposed. In a statement released on February 9th, Vodafone announced that it “continues to monitor developments in the US market and is exploring whether a potential transaction with AT&T Wireless is in the interests of its shareholders.” It would seem to be an open-and-shut case—buying AT&T Wireless would destroy shareholder value. Cingular, in contrast, can cut costs by merging its existing operations with those of AT&T Wireless, since it is already operating in the American market. Vodafone cannot.

But the company's Sphinx-like statement could be read both ways. For to win control of an American operator, the alternative to bidding for AT&T Wireless is not to do nothing: it is to attempt a $150 billion hostile takeover of Verizon, in order to win control of Verizon Wireless. This could make buying AT&T Wireless look like a picnic in comparison. And even if Vodafone pulled off such a deal, it would then have to sell off Verizon's shrinking and unattractive land-line business. This is not impossible—the company performed a similar manoeuvre in Japan—but it is not difficult to see why bidding for AT&T Wireless might look like the least bad option.

For Arun Sarin, who took over as Vodafone's boss last July, the timing could hardly be worse. Mr Sarin was planning to concentrate on integrating Vodafone's existing businesses, and perhaps working on a deal to extract SFR, its French associate, from the controlling clutches of Vivendi. Consolidation in the American market was thought to be a year or two away. But now AT&T Wireless has forced his hand. Ironically, a big American deal, whatever form it takes, is just the sort of thing that Sir Chris Gent, Mr Sarin's swashbuckling predecessor, would have relished.

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Oil

Less gushing

Feb 12th 2004 | NEW YORK
From The Economist print edition

A surprise cut in oil supplies

Get article background

WILL China and Russia be the new Axis of Oil? Supply and demand trends, plus this week's surprise from the OPEC cartel, suggest that these emerging giants may yet up-end energy markets.

With oil prices above $30 a barrel, OPEC was not expected to cut output quotas at its meeting in Algeria this week—merely to clamp down on quota-busting, which adds some 1.5m barrels per day (bpd) to official quotas of 24.5m bpd. But, on February 10th, it agreed to cut quotas by 1m bpd from April.

Why? “The second quarter is a bad quarter,” explained one oil minister. He was talking of the risk of a price collapse as the northern-hemisphere winter (when demand peaks) gives way to warmer spring (when oil use declines). Yet OPEC may be playing with fire. Edward Morse of HETCO, an energy trader, points out that inventories are currently unusually low. Even if OPEC cuts output by half of what it threatens, he says, there may still be sharp price spikes: “There's no cushion left.”

So why is OPEC taking the risk? Perhaps the Saudis are alarmed by the prospects of Russia rising and China collapsing. Russian production levels already challenge the 8m to 8.5m barrels per day (bpd) pumped by Saudi Arabia. Indeed, Russia's output rose by 650,000 bpd in 2002 and a whopping 800,000 bpd last year. Simon Kukes, the newish boss of the largest Russian oil firm,Yukos (the previous boss having been jailed), declared in New York this week that Russia is sure to become the world's leading petroleum producer, churning out 10.5m to 11m bpd by 2009. Such a flood of non-cartel oil makes it harder for the Saudis to manage prices, and may partly explain this week's cut.

China's emergence as a large but unreliable consumer of oil may be another factor. In recent months, China has elbowed Japan aside to become the world's second-largest oil importer. It made up an impressive third of the growth in oil demand last year. All that might seem to argue against a cut in OPEC quotas—except that China's economy may be overheating. A crash of the Chinese economy—though far from certain—would hurt, much as the South-East Asian financial crisis led oil prices to plunge. This week, Ali Naimi, Saudi Arabia's oil minister, asked, “Should we wait until we have a crash and then work like we did last time? In 1998 it took us almost two years to get things back to normal.”

Even so, the Saudis not only sit atop the cheapest and largest reserves of oil in the world, but remain the only country willing to maintain large amounts of idle capacity—something profit-minded Russian oilmen such as Yukos's Mr Kukes would never do. That should ensure that the Saudis remain the swing producer, and thus ultimate price-setter, in the market. And given that the United States still reliably makes up a quarter of the world's gasoline market, far more than shaky China, the only sure bet for OPEC remains that great American pastime: gas guzzling.

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The fight against spam

Make 'em pay

Feb 12th 2004 | SAN FRANCISCO
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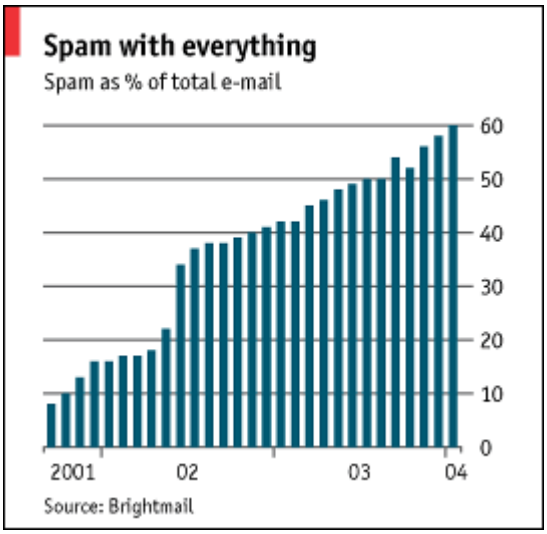
The dismal science takes on spam

THE short history of society's fight against spam—usually defined as unwanted commercial e-mail—may be about to pass into a significant third phase. In the first phase, it was geeks who led the resistance, using techie weapons such as e-mail filters with fancy Bayesian mathematics. In the second phase, politicians joined in, eager to get their names on to new legislation—in America, for instance, 36 states and Congress have passed laws of some sort against spam. Now, in the third phase, the economists are taking over.

The market opening for the economists is obvious. Both the geeks and the politicians are widely seen to have failed miserably. E-mail filters, though helpful, often block genuine e-mails, while still letting through some spam. And legislation, so far, seems to have had no effect at all, probably because hard-core spammers have moved offshore. More than half of all e-mail is now spam, and the share is rising.

To an economist, the reason for this mess is obvious. “At the moment, both the sender and the receiver of an e-mail pay a marginal price of zero,” says Benjamin Hermalin, a professor at Berkeley. “That must be wrong,” for e-mails do have marginal costs (such as electricity, storage and network congestion). For spammers, this presents a sure-win strategy: mail as much as you can, because even one hit out of a million is profitable.



An obvious solution, then, is to charge for e-mail, or at least for the sort that spammers send. This idea has even been endorsed by the über-geek, Bill Gates of Microsoft. At the World Economic Forum in Davos last month, he predicted that fancy technology and payment schemes would together defeat spam within two years. (Sceptics noted that Microsoft could also help by fixing security flaws in its products—the latest confessed to this week—that can be exploited by spammers.)

To libertarians, among the earliest internet enthusiasts, the notion that e-mail should be un-free is anathema. They would fiercely oppose any economist daring to suggest charging “ordinary” people. Besides, any system that would rely on processing millions of tiny “micropayments” would be an administrative nightmare. In short, a good system has to remedy the perverse incentives that attract spammers, but leave everyone else alone, and thus better off.

Goodmail Systems, a start-up in Silicon Valley, hopes to launch such a solution this summer. Its idea, says Richard Gingras, its boss, is to create “a new, trusted class of e-mail from volume senders” which recipients would instantly spot as such in their inboxes. An example: Amazon, keen that its automatic order-confirmations not be filtered out as spam by mistake, would buy a million e-mail “stamps” for $0.01 each from Goodmail, which would share the $10,000 with participating internet service providers (ISPs). Goodmail fixes the stamps to Amazon's e-mails as encrypted e-mail headers, and sends the decryption key to the ISPs. The ISPs can then identify Amazon's e-mails as they arrive, and pass them on to the inboxes of consumers.

Under Goodmail's egalitarian system, spammers would also be free to buy stamps, just as senders of junk-mail buy postage from the post office. This, however, would introduce into their equation the normal economics of marketing. For most hawkers of penis enlargements, one can assume, the numbers would not add up, so they would not buy postage. They would therefore be left in a shrinking subculture

of illegitimate spammers, which ISPs can filter out more easily. Thus, says Mr Gingras, Goodmail's system would reduce (though not eliminate) spam, even if it is adopted only partially.

A different approach is not to charge senders for every message upfront, as Goodmail will, but only for those that lead to complaints from recipients, and in arrears. This is the route taken by IronPort Systems, another firm in Silicon Valley. For a bit over a year, it has been offering a service in which legitimate bulk e-mailers, such as newsletters, post a financial bond in return for assured delivery past spam filters into inboxes. Senders have to honour the bond and pay only if recipients complain. “We've designed the financial incentives to be insurmountable for spammers,” says Craig Sprosts, a director. The idea, as with Goodmail, is that this whitelist eventually grows so large that spammers will in effect be quarantined, as though they were on a blacklist. About 18,000 ISPs have already joined the system, and over 200 senders, including Google, a search engine, have posted bonds.

Some people want to go even further. Balachander Krishnamurthy, a boffin at AT&T Labs, the research arm of the phone company, proposes a system in which ISPs would establish a consortium—similar to banks creating Visa—that would act as a clearing house. ISPs would then give all of their subscribers credit limits. From then on, every time a recipient declares an e-mail “unwanted” to the clearing house, the sender is charged, say, $1. Once his credit limit—$200, for instance—is reached, the ISP shuts down his account.

This neatly addresses another big problem. The most insidious way of spreading spam these days is by writing software viruses, such as last week's MyDoom, that turn the computers of innocent consumers into spam machines. In Mr Krishnamurthy's system, however, the credit limits of infected users would max out within seconds of a new virus spreading, stopping it from travelling further. Presumably, ISPs will know enough to realise that grandma was the victim, not the hacker, and will eventually reconnect her.

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Hotel internet access

Room, board and broadband

Feb 12th 2004
From The Economist print edition

Internet access in hotels is fast becoming a standard amenity

JUST as they take for granted air-conditioning and cable TV, business travellers increasingly expect to find broadband-internet access in their hotel rooms. Nearly 500,000 hotel rooms around the world will have high-speed internet access by the end of the year, predicts Amy Cravens of In-Stat/MDR, a market-research firm. Despite all the hype surrounding the provision of wireless-internet access in coffee shops and airports using Wi-Fi technology, the number of public Wi-Fi "hotspots" is tiny in comparison: most travellers are far more likely to get online in their hotel rooms. As in-room connectivity becomes more widespread, what was once seen as a distinctive feature to attract discerning customers is increasingly regarded as a necessary service.

In-room access is now shifting from a fee-based model towards becoming an amenity—"from pay-per-view to free shampoo", as Ms Cravens puts it. In America, where the market is most developed, most large hotel chains began wiring up their rooms several years ago. Access charges were typically $10 per day or $3 per hour. But now some hotels give away broadband access. Last year, Marriott announced that it will provide free access in more than 1,200 of its hotels; Fairfield Inn will do so at over 500 hotels by the end of this year. In recent weeks, similar announcements have come from the Holiday Inn, Holiday Express and Best Western chains. Tom Higgins, the boss of Best Western, says free access is becoming the norm because travellers object to paying for what they now regard as an essential service.

All of these hotel chains hope that the provision of free access will boost loyalty and occupancy, by encouraging customers to choose the same hotel or chain again. European hotels, which were noticeably slower on the uptake, are catching up—in many cases using Wi-Fi to provide in-room access without having to lay cables. The situation in Asia is much patchier.

The appeal of in-room access is not limited to laptop-toting business travellers, notes Jasbir Singh of Pronto Networks, a provider of software for managing hotspots. Leisure travellers also like to keep up with their e-mail. "In the last year, we saw a pick up in demand from tier-two and leisure hotels,'' he says. In many cases, in-room access is made available via a television set-top box with a wireless keyboard, so there is no need for a laptop. So much for getting away from it all.

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About sponsorship

The Channel Tunnel

Under water

Feb 12th 2004
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Eurotunnel is trying to head off yet another financial crisis

AP

Into a financial black hole

"WITHOUT a doubt, the Channel Tunnel would not have been built if we'd known about these problems," Richard Shirrefs, the chief executive of Eurotunnel, said this week. Too few people are using the ten-year-old undersea link between Britain and France to repay even the interest on its bloated construction costs, which have left Eurotunnel with some €9 billion ($11.5 billion) in debt. So, just as happened with supersonic Concorde, taxpayers are being asked to bail out another Anglo-French transport fiasco.

But this time, the governments of Britain and France are unlikely to cough up. In 1986, when Margaret Thatcher, then Britain's prime minister, and the late François Mitterrand, France's president, announced that Eurotunnel had won the bid to build the link, both were adamant that no public money would be involved. While the French might now, as is their way, be a little flexible about such things, Britain will not. Pouring public money down the tunnel "is prohibited by international treaty and legislation," insists a spokesman for Britain's Department of Transport.

Mr Shirrefs has not been specific about what he wants, other than a radical restructuring of Eurotunnel's balance sheet, which could involve state assistance or guarantees. His firm, which was granted a 99-year lease on the tunnel, has unveiled a record net loss of €1.9 billion, mostly due to an accounting charge to reflect reduced cashflow expectations. Eurotunnel operates a shuttle service on the twin rail-tracks carrying passengers and vehicles. It also charges others to use the link, including rail-freight companies and Eurostar, which operates high-speed rail services between London, Paris and Brussels.

Even at the lower end of forecasts, some 10m Eurostar passengers were expected to use the link each year. But last year just 6.3m did. Instead of 5m tonnes of freight, only 1.7m tonnes were transported. Mr Shirrefs would like to boost traffic by cutting charges, but until November 2006 the fees paid by Eurostar and the freight companies are fixed—and at a level that is also based on an expectation of much higher usage. Slashing prices would bring more passengers, but it risks tipping Eurotunnel even closer to bankruptcy unless its balance sheet can be shorn up. The company has already undergone (at least) three earlier financial shake-ups.

None of this will come as a surprise to tunnel-sceptics—who, like Concorde's, were mostly ignored. Even as the tunnel was being dug, ferry firms ordered bigger and faster ships, confident that they could undercut it. In the event, this is what they did. Even the ferries are now adrift and losing passengers to cut-price airlines. Instead of taking an expensive train or a slow boat, an increasing number of passengers now fly cheaply to destinations in Europe, and if they want a car, they hire one.

Mr Shirrefs is besieged by dissident French shareholders who want to replace Eurotunnel's management. But that would probably not prevent bankruptcy. The only consolation is that, if it goes bust, the Channel Tunnel, like all fixed assets, will still be there for another operator to use—and its life expectancy is much longer than the recently retired Concordes.

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Manufacturing in India

Old India awakes

Feb 12th 2004 | MUMBAI
From The Economist print edition

The optimism of India's newest industries is spreading to its older ones

INDIA is often said to have missed out as a manufacturing nation thanks to poor quality, outdated products, bad management, indolent self-serving businessmen and appalling infrastructure. But India has found success at producing computer software and in business outsourcing. At last, some of that success may be rubbing off on manufacturing, which accounts for 20% of the vast country's economy.

An increasing number of India's old-economy firms have quietly restructured. Spurred on by the threat of foreign competition, they have discovered how to make internationally competitive goods by shedding labour, designing new products and improving management. They are cashing in on the same low labour costs and technology-astute employees that have helped India in software and outsourcing. In the process, this has given Indian firms the confidence to search out markets in developed economies and even to buy operations abroad.

AP

Any colour you like as long as it is yellow

"I've never seen industrialists so confident," says Hemendra Kothari, chairman of DSP Merrill Lynch, a Mumbai investment-banking joint-venture. Manvinder Banga, boss of Hindustan Lever, one of India's biggest firms, agrees: "Five years ago you always heard Indian companies complaining about international competition and demanding protection, but now you hear optimism and confidence about going global." With better quality and lower costs, Hindustan Lever now sends each year $200m-worth of what Mr Banga calls "world class" products, such as skin cream, Pears soap and packet teas, to other parts of the empire of Anglo-Dutch Unilever.

Many of India's old industries, such as machine tools, general engineering and basic textiles, remain mired in inefficiencies and protectionism. But marked changes are being led by the vehicle sector, where exports of components more than doubled in the past four years, to almost $1 billion. There have been big improvements in drugs and consumer products too. That has helped manufacturing growth to rise to 7% a year. The gradual liberalisation of the economy from 1991 helped to motivate change, but the main catalysts were a slump in demand four years ago, competition from China, and the threat of markets being opened up by the World Trade Organisation.

Even some old family firms, which had prospered more by exploiting political connections than being competitive, shed loss-making subsidiaries. Costs were squeezed, managements revamped, and labour cut (though politically sensitive laws make redundancies difficult). Much lower interest rates have also helped. A few firms found that they could get goods to market faster than foreign competitors and—just as in software—they discovered that they could design new products for about a third of international costs.

A typical example is Tata Motors, part of India's second-largest private-sector group. Based in Pune, its 21,500 employees produce trucks and cars. In the year to March 2004 it expects sales of nearly $3 billion. After losing money, it cut its break-even point from two-thirds of capacity utilisation to one-third. The savings partly came from slashing its workforce by 5,000. "We got down to squeeze costs as never before—it became a mission; a question of survival, as well as of pride," says Ravi Kant, Tata Motors' executive director.

Better protected at home, Tata Motors sought growth overseas. It is buying a Daewoo truck-making

plant in South Korea for $118m. China, Russia and South Africa are in its sights, along with Europe. In Britain, the Indica, a small car designed by Tata, is being sold as an MG Rover. Mahindra & Mahindra has also designed a new vehicle. Anand Mahindra, its boss, is now forming a group of small Indian auto-component manufacturers to challenge multinationals such as Delphi.

Bharat Forge, a family-controlled firm also based in Pune, is more ambitious. The third-largest forging business in the world, it supplies firms such as Ford and DaimlerChrysler. Its recent €29m ($35m) acquisition of Carl Dan Peddinghaus in Germany gives it a combined annual capacity of nearly 300,000 tonnes, with over $350m of sales likely in 2004. Baba Kalyani, Bharat Forge's chairman, says that two other ventures being pursued in China and North America could propel his firm past ThyssenKrupp of Germany, the market leader. Ranbaxy, India's leading drug company, is also strutting the world stage. It recently bought RPG Aventis, a generic-drug producer in France, to gain its product licences and market share.

All these companies are still only testing the takeover market, limiting their targets to around $100m-200m. But as balance sheets grow, bankers expect bids of up to $500m in two or three years, with $1 billion purchases being made by companies such as Reliance Industries, India's largest group. Old India has not only been roused, it has also started shopping.

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Cars in South Africa

Revving up

Feb 12th 2004 | PORT ELIZABETH
From The Economist print edition

South Africa's car industry roars ahead

"SOME visitors are amazed that this is Africa. They expect a jungle or lions, but then they see this". The manager of a Delta Motors assembly plant in Port Elizabeth waves at a bustling factory floor, then to a gang of robots welding the panels of a small car. Along the line more robots spray paint; another squirts glue to fit windows. Human workers fill the gaps, as 125 cars are put together each day. Other machines are in place to build a new model, once the firm's new owners give the order. Last month, General Motors announced the purchase of an outstanding 51% share of Delta Motors, South Africa's fourth-largest car firm, for an undisclosed sum.

GM left in 1986, at the height of apartheid rule, after 60 years in South Africa. The world's biggest car firm returns to a newly flourishing industry. Domestic new vehicle sales grew by 5% last year, to nearly 370,000, a seven-year high—making South Africa the largest market, after Brazil, in the Middle East, Africa and Latin America region.

Rival firms came back to South Africa much earlier than GM. Toyota, BMW and others already use the country as an export base. Last year 126,000 cars were exported, a five-fold increase from 1998 (see chart). Producers reckon that will more than double in the next three years. Ford is investing 1 billion rand ($137m) from the end of this year to begin exports of an undisclosed model. Toyota, which recently bought its South African franchise, has begun a 3.5 billion rand investment to boost exports.

Nissan has also recently taken control of its South African holdings, though it does not export yet. German car makers have invested nearly 7 billion rand in the past five years; right-hand-drive models of BMW and Mercedes Benz are built in South Africa for export to Britain, Australia, Japan and other parts of Africa. Mercedes may announce further expansion of its car-building plant in March.

All of this is cheery news for the 280,000 or so workers in the industry, South Africa's second-largest after mining. But can the country grow to be a serious international competitor? Today its car industry is ranked just 18th in the world.

GM bosses say that operations in the country "are about exports", especially to the "growth market" in the rest of Africa. The firm also has small operations in Nigeria, Kenya and north Africa. Though tight-lipped about the prospect, GM is also probably thinking of selling to America under the African Growth and Opportunity Act, passed by Congress in 2000 to allow tariff-free imports from Africa. Sales of South African cars and components, such as catalytic converters, have already surged in America in the past three years.

Expansion is likely to continue for years. Labour costs are low; production is increasingly streamlined, allowing for economies of scale. Just 25 types of car are now assembled, down from 37 five years ago. The government has extended its Motor Industry Development Programme to 2012, allowing exporters to import components and other vehicles duty-free. Rising production should encourage other sorts of investors. Today most cars are merely assembled at plants, such as that in Port Elizabeth. But as volumes grow—Toyota talks of doubling its production to 200,000 cars a year by 2007—component

firms, such as radiator-builders or wheel-makers, may set up operations too.

True, export growth will depend partly on South Africa's volatile currency. The current strength of the rand made it harder to push exports last year. But the prospects are mostly sunny. Expect more robots, not lions, in Port Elizabeth and other car-building corners of South Africa.

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Architects in China

Cultural revolution

Feb 12th 2004 | BEIJING
From The Economist print edition

China is the new playground of the world's civic dreamers

FEW capital cities in the world, barring those destroyed by war or other calamity, have undergone such a rapid change in such a short space of time as Beijing. From the rubble of old alleyways and decrepit apartment blocks are sprouting gleaming office towers and shopping malls, colossal stadiums and lavish government buildings. This is part of an orgy of construction across urban China that is providing unparalleled opportunities for foreign architects to fulfill their wildest dreams.

China's spending on construction ranks only behind America's and Japan's and is growing the fastest of the top ten spenders, at 8-9% annually. It is unencumbered by the nuisance of public debate or qualms about relocating large numbers of people. It has a government that is keen to spend huge sums of money to impress the outside world with architectural wonders. And, most enticing of all, it is eager to pay foreign architects to help it achieve this. Most of the world's leading architectural firms have set up office in China.

Remarkably, given China's cultural pride, most of the highest-profile projects now underway in Beijing were designed by foreign celebrities. Most famous is the giant egg-shaped National Theatre nearing completion in the heart of the capital. It involved razing several blocks of dilapidated but picturesque old-style courtyard houses. The $320m glass and titanium building, set in an artificial lake, was designed by Paul Andreu, a French architect. In November, Britain's Lord Foster won a competition to design a new $1.9 billion airport terminal. In the past two years the capital has also awarded the design of a $460m stadium for the Beijing Olympics in 2008 to Jacques Herzog and Pierre de Meuron of Switzerland (architects of London's Tate Modern gallery) and that of a 230m-tall headquarters ($600m) for Chinese state television to a Dutchman, Rem Koolhaas.

Albert Speer of Germany, who has designed a new “automobile city” for Shanghai's outskirts, is now hoping to persuade Beijing to accept his scheme to redevelop the city's north-south axis. This has raised eyebrows among those still mindful of the grandiose plans for Berlin of his father of the same name, who was Hitler's architect. But it is Chinese planners who are thinking grandiosely, creating what Mr Speer describes as a market for architects that has become as crowded and competitive as any in the world. “Everybody's trying—good and bad,” he says.

China's predilection for big foreign names has raised hackles among local architects. Shao Weiping of the Beijing Institute of Architectural Design criticizes what he calls some “experimental architects” from abroad who see China as an opportunity to try out ideas that might not be accepted back home. “The pace of urbanisation is creating urgent demand and causing some developers and officials to make irrational decisions,” he complains. Mr Shao admits that Chinese architects still lack the organizational skills of their foreign rivals, but thinks that in five years or so they should be competitive. Whether the irrational tendencies of urban planners will change is another matter.

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Face value

In praise of the Donald

Feb 12th 2004
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Donald Trump has emerged as the perfect on-screen guide to the reality of American business

THE telephone rings. Donald Trump picks up the handset. “Oprah called and she wants to have me on the show,” he barks. The phone goes again. A friend. They make a date, eight o'clock at New York's 21 Club. Lots of pretty girls. His friend's wife is gonna hate it. Again the phone rings. It is his publicity guy, Jim Dowd. Mr Dowd just got Mr Trump on the cover of *TVGuide*—which, explains Mr Trump, is big. Very big. The biggest magazine in entertainment. The most important thing you can do. Also, Mr Trump's business is big. Very big. Bigger than that guy from the *New York Times* said it was. In fact, says Mr Trump—and here he leans purposefully across his very big desk—“I'm by far the biggest property developer in New York.”

Mr Trump is indeed quite big at the moment. In fact, he has his own television show, called “The Apprentice”, which Mr Trump both co-produces and stars in. On the show, he plays a cheesy New York real-estate developer called Donald Trump, who seems to have sprung straight out of the 1980s. The trademarks of this Trump character are an improbable bouffant comb-over, a fleshy-lipped pout and a weakness for saying such things as “I'm by far the biggest property developer in New York.” As is becoming clear, Mr Trump has been preparing for this part since the 1980s, when he first made his mark as, um, a cheesy New York real-estate mogul. And how well he plays it. “The Apprentice” is pulling in 19m viewers a week, close to the very top of the TV ratings. A second series is planned, for which NBC, one of America's four big television networks, will pay Mr Trump “multiples” of what he got for the first one, he claims.

“The Apprentice” may in fact be an important business event in America. One reason is what it may say about the future of the entertainment business—and, in particular, the reality-show genre on which television bosses everywhere are leaning so heavily for their audience. Reality TV has been doing well in Europe recently: this week, one-fifth of Britain watched the final of “I'm a Celebrity, Get Me Out of Here”. From America, however, have come occasional signs that reality TV's creative spirits are running out of compelling ideas. Called “The Littlest Groom”, Fox TV's forthcoming show features amorous dwarfs.

With “The Apprentice”, NBC has a genuine and thoroughly original hit. Some of the show's critics have found the patience to explain that, like all reality TV, Mr Trump's show is not actually real, as such. (Shame on you, Mr Trump, for not using your real boardroom in the show.) But *The Economist* thinks the critics have it backwards. Slugging it out, say, in the jungles of Borneo for a $1m prize, a more typical reality-TV formula, is unlikely to illuminate the real lives of most American middle managers. The drama that Mr Trump offers cuts closer to the bone.

Consider: two teams of hard, young contestants, each of them a bag of squirming appetites, battle to beat each other at a task set by Mr Trump. The losers win a trip to the boardroom, where they are encouraged to turn on each other. Mr Trump picks who gets canned (in the spirit of the imperial American boss, he mostly ignores his down-trodden advisers), finally delivering the show's punchline: “You're fired.” The winners, meanwhile, get to marvel at how much the boss is making: week one involved a trip to Mr Trump's much-gilded penthouse suite. After 15 weeks of this treatment, the surviving “apprentice” wins a year of what will doubtless amount to extreme angst and peril, running one of Mr Trump's companies, on a “huge” salary of $250,000. Presumably, Mr Trump (“the master”) takes the upside if the apprentice works out. If not? He, or she, is fired.

Mr Trump himself is at pains to point out the “educational” aspects of his show. NBC's publicity people say that Harvard Business School and Wharton are making the show “required viewing for MBAs”. Although both schools sniffily deny this, their students appear to be taking the show seriously enough. (“Mr Trump is clearly insane,” says one MBA student. “But yes, you can learn from it.”) Jeff Zucker, NBC's head of news and entertainment, says that “The Apprentice” has “the most desirable audience imaginable”, with viewers with incomes over $100,000 watching it in “huge numbers”. (According to Nielsen Media Research, the show is the second-most popular series on television among 18-49-year-olds with incomes over $100,000, lagging only “The West Wing”, a political drama.)

Apart from the nuggets of wisdom that drop periodically from the master, the show's appeal may also rest on how it cuts away the politically correct baggage that has steadily accumulated around American business practices. Supposedly, today's bosses are all newly sensitive creatures, and middle management is abreast of the very latest business-ethics compliance practices. In Mr Trump's world, the women shamelessly use their sex appeal to get what they want, the men bumble from one disaster to another, and the puffy-looking rich old guy with the funny rug on the top of his head gets the supermodel and the cash. Hooray! If only Dennis Kozlowski, now on trial accused of looting Tyco, had thought of televising his reign at the firm, his excesses (toga party and all) might have turned a decent profit.

Trump towers

Those who disapprove of such antics will no doubt continue to do so. A particularly vicious attack by Tina Brown in the *Washington Post* berated Mr Trump as the “phallic narcissist supreme”. (Mr Trump says he thought the piece worked out well for him, though he does concede that “Tina can be snippy”.) For now, however, Mr Trump seems mainly to want to have a bit of fun—meanwhile, further enhancing the Trump brand, of course, which he continues to plaster all over his high-end real-estate developments. Maybe, after the past three hellish years, corporate America wants a bit of fun, too. Make a note to read the spin-off business book, which is coming soon.

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Japanese company debt

An end in sight

Feb 12th 2004 | TOKYO
From The Economist print edition

Japan's big companies are well on the way back to cleanliness

Get article background

MORE than a decade ago, Japan chose the wrong path to economic recovery. Faced with the mountain of debt on which its bubble economy had been inflated, the authorities could have taken the quick route: swiftly writing off bad loans and easing the pain with loose monetary and fiscal policy. Instead they have muddled along, wandering down many a dead end in the process. Even so, better times are in sight for many of Japan's companies, long burdened by deflation, dismal profits and debt. The country now has a central-bank boss who understands the deflationary problems far better than his predecessors (see article); profits are soaring; and bad debts have been sufficiently reduced that in important ways Japan's biggest companies are nearing the end of the post-bubble clean-up.

The reduction in debts is striking. Total corporate debts peaked in Japan in 1996 at some 125% of GDP. Since then, says Jesper Koll, a strategist at Merrill Lynch in Tokyo, Japanese companies have repaid ¥190 trillion ($1.8 trillion), bringing debts down to some 90% of GDP. To get them down to 80%, the average before the bubble years, Mr Koll reckons that companies have only another ¥50 trillion to pay off. He thinks they will manage this within two years.

To be sure, Mr Koll is not known for his bearishness on Japan. But many other analysts also conclude that, for big listed companies at least, average debt levels could return to their pre-bubble levels within a couple of years. Peter Morgan, an economist at HSBC, a British bank, reckons that most big firms can reach pre-bubble debt levels in perhaps 18 months.

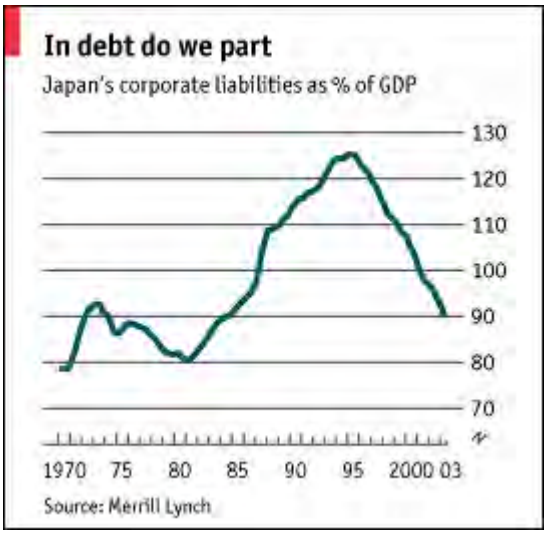
The burden of groaning debts has been eased by surging profits. A survey this week of 155 non-financial firms in the *Nikkei*, Japan's leading business daily, showed pre-tax profits jumping by more than a third in the first three quarters of this financial year, which ends in March—a higher increase by far than the much-praised recovery in profits by their American competitors. Granted, these firms represent only 10% or so of Japan's publicly traded firms and are probably some of the best of the bunch. But a wide array of companies and sectors have been reaping the benefits of cost-cutting, booming demand from China and a recovery in domestic demand—and they have been using those profits to repay debt.

Signs of better profits and healthier balance sheets were already apparent last spring, as Japan rebounded from a steep downturn in 2001. The ratio of operating cash-flows to total debts—a good way to measure how much of a burden those debts are—had already risen sharply for many sectors covered

by Standard & Poor's (S&P), a big ratings agency, in the two financial years to March of last year. The biggest gains were in the drugs industry, where companies made enough cash last year to retire their debts more than twice over. But the ratio also rose sharply for telecoms firms (from 34.0% to 46.7%) and carmakers (18.4% to 26.3%), and a bit in chemicals, food, utilities and retailing.

Over the past year, profits have spread to other sectors, as Japan's upturn has deepened. After merging and restructuring, for example, steel companies have found relief from fierce domestic competition, and have also been profitably supplying China's building spree. Of Japan's huge trading companies, only three—Mitsubishi, Mitsui and Sumitomo—were on a sure footing two years ago. But cost-cutting and overseas demand have recently restored once-middling performers, such as Marubeni and Itochu, to better health.

Rising profits have helped boost share prices. The market has risen by a third since April of last year. This, in turn, has enabled many firms to sell more equity cross-holdings and pay off debt still more quickly. Electronics giants such as Fujitsu, Toshiba, Hitachi and NEC have all sold stakes in affiliates in recent months.



Small wonder, perhaps, that bankruptcies fell to 16,624 last year, after topping 19,000 in each of the previous three years. The value of the debts left behind by bankrupt companies dropped 14.4% compared with the year before, to ¥11.8 trillion, their lowest level since 1996. Last year, S&P upgraded more non-financial firms than it downgraded. In 1999, it downgraded 25 companies and upgraded none.

Money, money, money

The question, of course, is whether Japanese companies can continue to churn out bumper profits. Peter Tasker, a financial consultant, points out that they remain vulnerable to small changes in sales, which can quickly raise or reduce profits. If the economy should seize up, either because global demand falters or the yen surges, to name but two potential pitfalls, profits might fall sharply.

Not as sharply as they would have done before, perhaps. Encouragingly, many big firms have already done some of the toughest restructuring work. Thus another slowdown need not affect them as badly as the one in 2001, when big firms were all cutting costs, weakening demand and, by extension, each other's revenues. Mr Koll, for one, is especially cheered by the broad-based nature of the current upturn in profits. After years in which exporters accounted for most profit growth, he expects largely domestic firms to account for almost two-thirds of growth this fiscal year, and exporters for little more than a third—almost the reverse of last year.

Financial markets seem convinced that these profits are sustainable. The implied volatility of shares—roughly, how much traders expect them to move around—has halved since late 2001. Together with falling debts and rising share prices, says Yusuke Ueda, a strategist at Credit Suisse First Boston, this means that the riskiness of Japanese corporate bonds has fallen to a quarter of its level of two years ago. After narrowing sharply over the past two years, the spread of Japanese corporate debt over government debt is the smallest ever recorded anywhere.

But if big firms are generally in better shape, debts still weigh heavily on smaller ones. As of last March, although the smallest firms accounted for only 40% or so of debts, they accounted for 70% of the “excess” debt burden, says HSBC's Mr Morgan. They will find it hard to reduce these, he warns, without vastly improved profits.

There are, at least, glimmers of hope. Operating profits of small-and-medium companies rose 7.4% in the first half of the fiscal year, and they reduced their debts by 9.4%. Since then, confidence surveys of small firms have been notably cheerier, which should mean still-higher profits.

Clearly, however, many are still struggling; and it could be a long time before these firms find their feet. But smaller firms need not hold the rest of the economy captive. Big companies putting their debt worries behind them will go a long way towards reversing Japan's deflation.

The goal, after all, is not to keep economy-wide debt shrinking for its own sake: that total bank lending has fallen for 73 months in a row has hardly been cause for celebration. What Japan needs is for a critical mass of companies to reach financial health: even firms with big debts will then find their burdens more manageable.

Once healthier, firms become more relaxed about their debts and the outlook for the economy, they will be tempted to plough more of their profits into new investments. Some, dare one say it, might even start borrowing to invest, thus improving the outlook for the country's big banks—and dragging Japan out of its long deflationary rut.

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The Bank of Japan

Toshihiko Goldilocks

Feb 12th 2004
From The Economist print edition

Taking the porridge test

WHO is the world's best central banker? Alan Greenspan, the chairman of America's Federal Reserve, would doubtless be the punters' favourite. But *The Economist* still blames him for allowing the stockmarket bubble to inflate in the late 1990s. More recently, his low interest rates have fuelled a household borrowing binge. In contrast, Jean-Claude Trichet, who took over at the European Central Bank last November, has been too slow to cut interest rates. But if Mr Greenspan's policies are too hot and Mr Trichet's too cold, Toshihiko Fukui, the governor of the Bank of Japan, would seem a veritable Goldilocks among central bankers.

Come again? How can we praise anyone at the Bank of Japan while the economy is still in the grip of deflation? Because Mr Fukui has been in his job for only 11 months and has, for once, actually steered monetary policy in the right direction.

He had been expected to follow in the footsteps of his predecessor, Masaru Hayami, quite possibly the world's worst central banker. Mr Hayami argued—wrongly—that once interest rates were zero, monetary policy could not halt deflation. Mr Fukui has shown greater zeal to use unorthodox monetary policies. Even when the price of money—interest rates—is zero, a central bank can still increase the quantity. Under Mr Fukui, the bank has, in effect, printed a lot more money through its “quantitative easing” policy.

Relations have improved vastly with the Ministry of Finance. One result is that the Bank of Japan no longer fully “sterilises” intervention in the foreign exchange markets. Of old, the yen that it printed to buy dollars would be mopped up by selling bonds. Now it lets some at least of the resultant liquidity flow into the economy.

Critics might fret that the recent slowdown in the growth in Japan's monetary base (banks' reserves at the central bank plus notes and coins in circulation) suggests that the Bank of Japan has tightened policy. But as Richard Jerram, an economist at ING, argues, this may simply reflect rising confidence in banks and thus falling demand for notes to stuff under the futon.

Even more important than rolling the printing presses has been a change in the bank's rhetoric. Oddly, when the Bank of Japan started quantitative easing in 2001, Mr Hayami said that it would not work. Since monetary policy affects inflation partly through expectations, this indeed turned out to be the case. Mr Fukui has been much more enthusiastic about the policy's efficacy, and says the bank will not stop easing until year-on-year inflation has been positive for a good while. Even Takatoshi Ito, an economist at Tokyo University and long a critic of the bank, says that Mr Fukui is at last sending the right message. In effect, says Mr Ito, the bank now has an inflation target.

There is still more to do. Deflation has not yet been defeated: consumer prices fell by 0.4% in the year to December. And broad measures of the money supply are still barely growing because banks have been reluctant to lend, or because firms have been too concerned to pay off debt, or both. But Mr Fukui is at last changing deflationary expectations. Government bond yields have risen since he arrived; surveys suggest a decline in the proportion of households expecting consumer prices to fall. Extra liquidity has pushed up share prices. Who knows? Perhaps there will be time, not too far off, when there are books entitled “Nikkei 100,000”.

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Trade

Sweet folly

Feb 12th 2004 | WASHINGTON, DC
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First steelmakers and bra-makers. Now the president panders to sugar

AS PART of its commitment to freer world trade, George Bush's administration has been a champion of bilateral deals with other countries that seek to pull down the hurdles to international commerce. Since last autumn, when multilateral negotiations under the auspices of the World Trade Organisation collapsed in Cancún, these have been the only game in town. That is why the free-trade deal negotiated between America and Australia has been keenly watched. It promised to be the first free-trade pact between two developed countries who are not neighbours, but allies. So what a dispiriting example was set when the agreement was announced in Washington on February 8th, after year-long negotiations.

EPA

Nice farm, bad temper

Not many complaints from the two countries' manufacturers: tariffs on nearly all their goods are to be scrapped as soon as the deal is approved by Congress and the Australian parliament. America's National Association of Manufacturers thinks that could boost American manufactured exports by $2 billion. Telecoms and banking markets are also loosened.

The trouble with the agreement lies with farm trade. Australia's liberalised farmers are among the world's most competitive. Yet they won many fewer concessions from the Americans than they had hoped. The Bush administration listened to California's dairy producers, who claimed 21,000 jobs and $5 billion in revenues were at risk from competition. So the deal allows an increase of a mere 0.17% of the annual value of American dairy production, or 2% of imports. The increase in the beef quota amounts to about 1.6% of imports, while duties on beef—don't put on the grill just yet—will be phased out over 18 years.

Nice work by the cattlemen. But the sugarmen outdid them. They managed to get sugar excluded altogether, and Australia's trade minister, Mark Vaile, was forced to swallow his promise back home that sugar was to be a central part of the deal. So American imports of Australian sugar remain frozen, at 87,000 tonnes a year. Freer trade in beef and sugar would have accounted for the bulk of an estimated $2 billion-4 billion in annual benefits for Australia from a better free-trade deal.

The deal has once again underscored the clout of the American sugar lobby—scattered across America from the powerful interests of Florida, a key electoral state for Mr Bush in November, to the beet growers of North Dakota. The industry and its executives are among the biggest donors to congressmen and to the president. The sugar quotas they favour mean Americans pay around three times the world-market price. The inclusion of tiny concessions to cane growers in five Central American countries, in the recently

negotiated Central American Free Trade Agreement, is one reason why that pact is guaranteed a rocky ride through Congress.

Both American and Australian negotiators admit that their deal was “cobbled together” in the light of political realities in America—that is, the clout of sugar producers in an election year. They also suggest that the sugar lobby may this time have overstepped the mark. A lobby of sugar users is at last starting to stand up for itself: after all, businesses are closing in Chicago, the sweet-making centre of America, if not the world, because of high sugar prices. A growing chorus of congressmen, including Senators Rick Santorum, Peter Fitzgerald and Charles Grassley, now dares to complain about sugar protectionism.

America's trade ambassador, Robert Zoellick, has just trotted off around the world to revive the WTO negotiations that collapsed, as it happens, over American and European intransigence about freer farm trade. Though this latest deal hardly helps his cause, some inside the administration claim a silver lining. Sugar producers have always said they are prepared to negotiate a more open market only in a multilateral context, where other economies also bring down their barriers. Revived multilateral talks would be a chance to call their bluff.

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Futures exchanges

Shoot-out in LaSalle Street

Feb 12th 2004 | CHICAGO AND FRANKFURT
From The Economist print edition

Eurex, Europe's biggest derivatives exchange, takes on America

THERE was nothing subtle about the party on February 9th: a lavish affair in the lobby of The Rookery, an elegant building in the heart of Chicago's financial centre, with searchlights menacing the art deco façade of the Chicago Board of Trade (CBOT) building only steps away. But then this was less of a party, more an act of aggression. For it marked the beginning of electronic warfare between two huge futures exchanges with global ambitions.

The day before, Eurex, a big German-Swiss interloper, laid down a direct challenge to the mighty CBOT by offering trading almost around the clock in replicas of its futures contracts on American Treasury bonds. Its bridgehead is Eurex US, a Chicago-based subsidiary which, despite much lobbying from the big Chicago exchanges, had finally won approval from the Commodity Futures Trading Commission (CFTC), America's main regulator of futures exchanges, a week earlier. As the first foreign-owned exchange to trade on American soil, its progress is being watched by foreign exchanges of all types.

Reuters

Translation: they're finished

The battle could be a long one. Eurex US traded around 40,000 contracts on the first day, about 3% of the CBOT's volume in the same products. It will need to grab a lot more business to make a living. That will be hard: the big derivative contracts that Eurex is interested in are notoriously hard to poach because big users value the fine pricing that comes with large turnover. Few think Eurex will manage to steal the hugely liquid derivatives market in American Treasuries as a result.

But it is not impossible. The DTB, as Eurex was then called, managed to steal trading in German government-bond futures from Liffe, a big London futures exchange, six years ago. And Eurex brings two big advantages over Chicago's somewhat antediluvian exchanges: global clearing and expertise in electronic trading.

It is no accident that Eurex has thrown down a direct challenge to the CBOT first. Both the Chicago exchanges are conservative—they still have open-outcry trading pits—but CBOT is the more backward of the two, in part because it still has a mutual structure, whereas the Chicago Mercantile Exchange (CME), its crosstown rival, demutualised in 2000. Many of the CBOT's members have dragged their feet over reform, in part because they are wedded to their pits, but also because its commodities traders, who have a lot of clout, see no point in reforms that would mainly benefit the big traders of financial products, nearly all of whom would prefer to see business go electronic.

Not that either Chicago exchange has sat on its hands. Terry Duffy, the chairman of the CME, claims his exchange is now “a major threat and competitor to everyone in our industry”. The CBOT first tried to head off the attack with desperate lobbying in Washington. When that failed, it scrambled to adopt a new electronic trading system (replacing one supplied by Eurex), slashed trading fees, and forged a link with the CME to clear trades. Already, 80% of the CBOT's trading in Treasury products is electronic. And on February 3rd, it announced plans to launch electronically traded German debt contracts.

The CBOT's price-cutting skirmish with Eurex may win the Americans a breathing space. But exchange fees are only a small fraction of the cost of trading. Most of the expense comes from clearing and settlement. Eurex's big unrealised ambition is to offer a single trading and clearing system for American and European derivatives. Such a global clearing link, still under scrutiny by the CFTC, would allow users

in America to trade Eurex's European products (and European ones to trade American products) much more cheaply. The threat from Eurex has already forced the CME and the CBOT to form a common clearing link.

Rudolf Ferscha, the chief executive of Eurex, cleverly enlisted local support. He persuaded 17 major trading firms, including a few big investment banks, to take a 20% stake in Eurex US, and gave big incentives to seven of them to trade on it. The boss of Eurex US was pinched from the CME; a former CFTC regulator runs the firm which clears its trades. He is also well connected: a letter backing Mr Ferscha's bid to compete came from one Alan Greenspan, chairman of the Federal Reserve.

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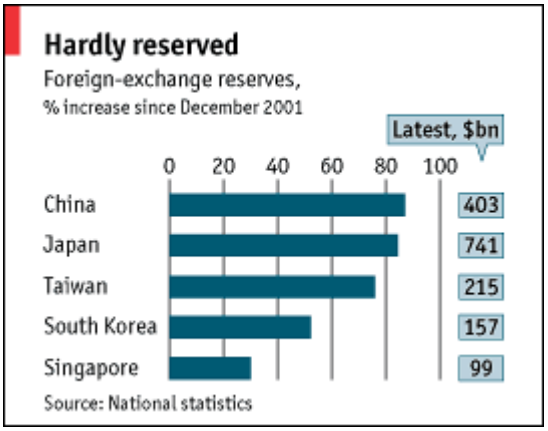
Currencies

Business as usual

Feb 12th 2004
From The Economist print edition

The latest G7 meeting has changed little



THE finance ministers and central bankers of the seven biggest economies, who met in Boca Raton, Florida, last weekend, all returned home happy with their agreement on currencies. Alas, they could not even agree on what it was they had agreed upon.

This G7 communiqué differed from the one issued after the group's meeting in Dubai last September only in saying that more flexibility is desirable for currencies that currently "lack such flexibility", while "excess volatility" was undesirable. To the Europeans this meant any further rise in the euro against the dollar would be undesirable, and that Japan and China must stop holding down their currencies. Japan, however, denied that it was a culprit, as the yen has risen against the dollar—albeit by a lot less than the euro, thanks to intervention on a breath-taking scale. As for America, its policymakers do not really care which currencies the dollar falls against, so long as it falls.

Plus ça change, the markets decided. So the euro rose this week to $1.28, within a cent of its January peak, and sterling went to an 11-year high. The Japanese, ever flexible, continued to intervene.

Indeed, so much have Asian central banks intervened over the past two years that their foreign-exchange reserves have risen by about $750 billion, to $2 trillion, most held in dollars. Asian governments now hold around one-quarter of all American Treasuries.

At what cost? A new study by Deutsche Bank argues that, with interest rates of zero, it costs Japan nothing to print as many yen as it needs to buy dollars, while those dollar assets then yield a positive return. When governments intervene to try to avoid a devaluation they need to sell dollars to buy their own currency, and sooner or later they run out of reserves. But in deflationary Japan there seems to be no limit to the ability of the central bank to print yen.

In China, on the other hand, the current pace of intervention cannot continue because it is creating excess liquidity and thus, at some stage, will also create inflation. There are already concerns about overheating, rising inflation and asset bubbles. So China may eventually have to revalue the yuan to regain control of its monetary growth.

This week, China has been rife with rumours that the government is considering changes to the yuan's exchange rate. Finance officials were quick to scotch such claims. And even if there is some adjustment to the yuan's pegged rate against the dollar, it is likely to be modest—especially in comparison with the 50% rise in the euro over the past two years. The 12-month (notional) forward rate for the yuan is currently betting on a 5.5% revaluation of the currency over the next year. That might help get foreign governments off China's back, but it will do almost nothing to slim America's huge trade deficit.

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Private equity

Sellers' market

Feb 12th 2004 | NEW YORK
From The Economist print edition

As investors pour into companies, the smart money may be flowing out

MUCH attention is paid to the power of retail investors flooding into markets. But what about sophisticated types heading for the exits? Investors ignore the latter at their peril. Think, for example, of the number of clever investors who spent much of the late 1990s scratching their heads and pulling their money out of inflated stockmarkets. Small investors have again been seduced by America's debt and equity markets. But there are also a few hints that, once again, private-equity funds, which know a thing or two about the risks they are running, are getting out.

The list of those trying to withdraw money includes some of the biggest names in the business: the Carlyle Group; Welsh, Carson, Anderson & Stowe; and Kelso & Co. Refinancings that let these investors cash in are becoming routine, though they rarely draw attention because the firms involved are often small, and the deals complex.

On February 10th, two such transactions were announced. TransWestern, a telephone-directory publisher, announced a bond issue that would enable the company to pay a special dividend to Thomas Lee Partners, an investment group that bought the company in 1997. A smaller issue in 2001 allowed the group to recoup a quarter of its initial $77m investment; this one should give it the rest.

The second deal that day was a similar restructuring of Compression Polymers, a plastics-maker that was bought three years ago by two well-known private-equity firms, Whitney & Co and Clearview Capital. Investors will receive a dividend of $30m, which is probably more than their initial investment. This follows another such deal a week ago in which Madison Dearborn, another large private-equity fund, began efforts to raise €250m ($320m) in debt to repay itself up to 70% of the money that it had used to buy Jefferson Smurfit, a packaging company, in 2002.

Extracting money from investments was tricky in 2001 and 2002, but became easier last year. Over the past 13 months, private-equity firms have withdrawn $7 billion from their investments through special dividends financed by selling junk bonds, according to Credit Suisse First Boston, an investment bank. Another $3.4 billion in special dividends was financed by bank loans last year—some three times the amount raised in 2002.

Such is the enthusiasm for shares that private-equity firms have also started withdrawing cash by offering shares. In January, Apax Partners and Hicks, Muse Tate & Furst sold their remaining stake in Yell, a British telephone-directory publisher, for more than twice what they paid for it in 2001.

Those that seem to be gaining the most are the private-equity funds themselves which, after a few lean years, are again popular. Yet the way private-equity funds are structured, with high annual fees and limited lives, means there is pressure to put investors' money into deals, even if prices are extravagant. The biggest losers are existing bondholders in companies from which private-equity firms are trying to take their money. They get none of the dividends, but suffer from being a creditor for a company awash with even more debt.

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About sponsorship

European life insurance

A bad business

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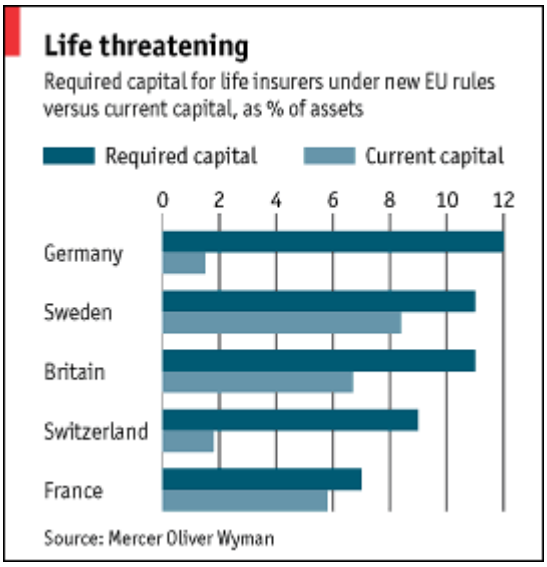
From The Economist print edition

Many European life companies are still in dreadful shape

THE good news is that the past year has been a better one for European life insurers. The bad news is that the preceding few years were so bad that the financial predicament of many is still dismal. German insurers are in the worst mess, followed by their Swiss and British counterparts. A new report on European life insurance by Mercer Oliver Wyman, a consultancy, found that although last year's stockmarket rise reduced insurers' capital shortfall by €45 billion ($77 billion), they are still short of a whopping €60 billion—and they will need to find it somehow and soon.

This is because most of the European Union's new, stricter rules on solvency (dubbed solvency 2) will start to apply across Europe from next year, and all of it will be in force by 2007. These will force insurers to value first assets and then liabilities at market value (instead of their historic cost), which means, for instance, future guarantees will have to be priced properly.



Paradoxically, insurers in the oldest and most developed markets made the most basic mistakes, putting far too high a proportion of their assets in equities. Moreover, the premiums they charged were too low for the risks they had underwritten, which often guaranteed generous returns. Italian and Spanish insurers, by contrast, put the bulk of their money into bonds and property, and charged a decent price for their policies. The result: their capitalisation is now almost as solid as it was before equity markets collapsed.

German life insurers are in especially bad shape, with some €10 billion-12 billion less in their coffers than required under the new solvency rules. “Second-tier life insurers in Germany are the most troubled of them all,” says Anthony Stevens, the author of the Mercer report. In June last year, Mannheimer Leben was the first German life insurer in 50 years to go bust. Other particularly weak life companies are Hannoversche Leben, Victoria (owned by Munich Re, a big reinsurer) and the life arm of Gerling, one of Germany's weakest general insurers.

Not that their British counterparts are in much better nick. True, there are a few good apples; on February 6th Aviva, Britain's largest life company, said it expected to have made £1.9 billion ($3.1 billion) of operating profits last year. But since the collapse of Equitable Life three years ago, the industry has been through wrenching changes. AMP closed its life operations for new business in June 2003; and Eagle Star, Royal & Sun Alliance and Skandia Life shut down their with-profits businesses (which smooth investment returns for savers) in 2002. The latest big insurer to run into trouble is Standard Life. It recently raised an estimated £350m by selling a fifth of Hammerson, a property group, and plans to raise another £750m.

Swiss life companies are also sickly. Winterthur, a subsidiary of Credit Suisse, has perhaps finally turned the corner, but not before the bank was forced to pump in SFr3.7 billion ($2.4 billion) of capital in 2002. After huge losses in 2002, Zurich Financial Services even managed three consecutive quarters of profits last year.

In a recent report, insurance analysts at CSFB predicted Europe's life insurers will continue to recover for the first half of the year. Yet even if the recovery can be sustained, many smaller insurers are so puny

that they will either go bust or be taken over. In future the industry will probably be dominated by a few big firms, such as Allianz, ING, Prudential or Aegon, who can at least afford to make mistakes.

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Economics focus

The reserve army

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The unemployment rate is only the beginning of the problem

RARELY does an economic indicator provide as much fodder for politicians and pundits as the unemployment rate. Far more than, say, current accounts or capacity utilisation, unemployment is something everyone can understand: you are either in work, not in work, or looking for work. As such, it is easily seized upon as an indicator of the broader health of an economy, or even of workers' eagerness to revolt.

The issue of unemployment has loomed especially large in America in recent months. That is partly because there are presidential elections in November, and much will hinge on whether George Bush can convince voters that an apparently booming economy is producing jobs. A glance at the unemployment rate would seem to give him the answer he wants. The unemployment rate has fallen from a post-recession peak of 6.3% in June to 5.6% last month, though that is still higher than the 5.0% that many economists consider to be the “natural rate” of unemployment—one that results merely from the normal or “frictional” patterns of job gains and losses at any one time.

But the unemployment rate is, in fact, a poor measure of economic health. It is defined as the fraction of the people in the labour force—those who are actively seeking work and available for it—who cannot find a job. And it relies on surveys to determine who is, in fact, actively seeking work rather than enjoying a spot of leisure. It is that subjectivity that makes the unemployment rate such a flawed statistic. A better question by far is how many people are employed—ie, are being paid by someone for doing something, since this should be less subject to doubt.

Or so you might have thought. Yet there has been a fierce debate in America recently over even this humble statistic. That is because the number employed in America is also still measured using surveys, and the two that are widely used tell different stories. One is taken of over 400,000 firms with formal payrolls. Another asks 60,000 households whether people in them are working. But both are hostage to the usual limitations of using small samples to estimate employment for the whole economy, though obviously to different degrees. They are, moreover, subject to big revisions. And both have their advantages.

The payroll survey uses a bigger, more easily verifiable sample. On the other hand, the household survey may better capture a rise in jobs among new small businesses and the self-employed, both of which seem to have accounted for a lot of new employment in the recent recovery. According to the household measure, nearly 139m Americans were in work in January, even more than had jobs at the height of the boom in March 2000. By the payroll measure, some 130m were in work—a fall of nearly 2% since employment peaked.

Left-leaning pundits naturally prefer the payroll survey. The Bush administration and its friends prefer the household version. Still, even the latter's figures would make job growth in the current economic recovery anaemic by historical standards.

Concerns over employment data are not just an American problem. According to a recent report from Barclays Capital, Germany's employment statistics may be overstating the numbers of self-employed because of a government initiative to subsidise previously unemployed workers in starting their own business. Combined with other shenanigans, this may produce an army of “hidden unemployed” of 1.4m, estimates the report, some 30% more than the number of officially unemployed. In Japan, the unemployment rate has never risen above 5.5% in recent years, despite a decade-long economic funk. That is in part because firms are reluctant to sack workers for social reasons.

Flawed though they may be, the employment numbers are of fundamental importance. Two crucial questions for economic output and for the suffering caused by unemployment are: what portion of the working-age population does not work and how many of those that do not work want to do so?

The international brigade

Regardless of which survey you believe, more people of working age are at work in America than in Europe. America's employment rate is just over 70%—almost ten percentage points higher than Europe's. In other words, less than a third of working-age Americans are not in work, whereas in Europe the figure is closer to 40%, though the gap between the two economies has been closing in recent years, as America's employment rate has fallen and Europe's has risen.

Many of those that do not work would almost certainly like to. By the OECD's reckoning, the ranks of those who could be mobilised are thus far bigger than those that are formally classed as unemployed. Indeed, in most countries, according to the OECD, there are far more gains to be had in bringing inactive workers into work than in reducing unemployment to its “natural” rate. In Italy, for example, the OECD reckons that more than a fifth of the working-age population could be brought into work, and some 17% in Spain and Greece.

In the euro area, the relatively lower employment rate explains much of the region's lower GDP per person. And low employment is often the fault of misguided policies that discourage people from working, such as high payroll taxes; marginal income taxes that penalise the work of a lower-paid spouse; rules that make sacking workers expensive; and generous benefits that encourage the work-shy to be classed as disabled, to name but a few.

Such structural problems play a huge role in the differences in the wealth of nations. The trouble is that fixing them can be politically fraught. Just ask Gerhard Schröder, Germany's chancellor, who resigned this month as head of his party, because of resistance to a package of modest reforms. Having jobs is one thing; working quite another.

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About sponsorship

The Marjorie Deane internship

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Applications are invited for the 2004 Marjorie Deane internship. This award, financed by the Marjorie Deane Foundation, is designed to provide work experience for a would-be or junior journalist under 28, who will spend three months of the summer at *The Economist*, writing about finance. Applicants should send a letter introducing themselves, with an original article of about 1,000 words intended for the finance and economics section. Applications must reach us by April 5th, and should be posted to: The Business Affairs Editor (Deane internship), *The Economist*, 25 St James's Street, London SW1A 1HG

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About sponsorship

The science of love

I get a kick out of you

Feb 12th 2004
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Scientists are finding that, after all, love really is down to a chemical addiction between people

OVER the course of history it has been artists, poets and playwrights who have made the greatest progress in humanity's understanding of love. Romance has seemed as inexplicable as the beauty of a rainbow. But these days scientists are challenging that notion, and they have rather a lot to say about how and why people love each other.

Is this useful? The scientists think so. For a start, understanding the neurochemical pathways that regulate social attachments may help to deal with defects in people's ability to form relationships. All relationships, whether they are those of parents with their children, spouses with their partners, or workers with their colleagues, rely on an ability to create and maintain social ties. Defects can be disabling, and become apparent as disorders such as autism and schizophrenia—and, indeed, as the serious depression that can result from rejection in love. Research is also shedding light on some of the more extreme forms of sexual behaviour. And, controversially, some utopian fringe groups see such work as the doorway to a future where love is guaranteed because it will be provided chemically, or even genetically engineered from conception.

The scientific tale of love begins innocently enough, with voles. The prairie vole is a sociable creature, one of the only 3% of mammal species that appear to form monogamous relationships. Mating between prairie voles is a tremendous 24-hour effort. After this, they bond for life. They prefer to spend time with each other, groom each other for hours on end and nest together. They avoid meeting other potential mates. The male becomes an aggressive guard of the female. And when their pups are born, they become affectionate and attentive parents. However, another vole, a close relative called the montane vole, has no interest in partnership beyond one-night-stand sex. What is intriguing is that these vast differences in behaviour are the result of a mere handful of genes. The two vole species are more than 99% alike, genetically.

Why do voles fall in love?

The details of what is going on—the vole story, as it were—is a fascinating one. When prairie voles have sex, two hormones called oxytocin and vasopressin are released. If the release of these hormones is blocked, prairie-voles' sex becomes a fleeting affair, like that normally enjoyed by their rakish montane

cousins. Conversely, if prairie voles are given an injection of the hormones, but prevented from having sex, they will still form a preference for their chosen partner. In other words, researchers can make prairie voles fall in love—or whatever the vole equivalent of this is—with an injection.

A clue to what is happening—and how these results might bear on the human condition—was found when this magic juice was given to the montane vole: it made no difference. It turns out that the faithful prairie vole has receptors for oxytocin and vasopressin in brain regions associated with reward and reinforcement, whereas the montane vole does not. The question is, do humans (another species in the 3% of allegedly monogamous mammals) have brains similar to prairie voles?

To answer that question you need to dig a little deeper. As Larry Young, a researcher into social attachment at Emory University, in Atlanta, Georgia, explains, the brain has a reward system designed to make voles (and people and other animals) do what they ought to. Without it, they might forget to eat, drink and have sex—with disastrous results. That animals continue to do these things is because they make them feel good. And they feel good because of the release of a chemical called dopamine into the brain. Sure enough, when a female prairie vole mates, there is a 50% increase in the level of dopamine in the reward centre of her brain.

Similarly, when a male rat has sex it feels good to him because of the dopamine. He learns that sex is enjoyable, and seeks out more of it based on how it happened the first time. But, in contrast to the prairie vole, at no time do rats learn to associate sex with a particular female. Rats are not monogamous.

This is where the vasopressin and oxytocin come in. They are involved in parts of the brain that help to pick out the salient features used to identify individuals. If the gene for oxytocin is knocked out of a mouse before birth, that mouse will become a social amnesiac and have no memory of the other mice it meets. The same is true if the vasopressin gene is knocked out.

The salient feature in this case is odour. Rats, mice and voles recognise each other by smell. Christie Fowler and her colleagues at Florida State University have found that exposure to the opposite sex generates new nerve cells in the brains of prairie voles—in particular in areas important to olfactory memory. Could it be that prairie voles form an olfactory “image” of their partners—the rodent equivalent of remembering a personality—and this becomes linked with pleasure?

Dr Young and his colleagues suggest this idea in an article published last month in the *Journal of Comparative Neurology*. They argue that prairie voles become addicted to each other through a process of sexual imprinting mediated by odour. Furthermore, they suggest that the reward mechanism involved in this addiction has probably evolved in a similar way in other monogamous animals, humans included, to regulate pair-bonding in them as well.

You might as well face it...

Sex stimulates the release of vasopressin and oxytocin in people, as well as voles, though the role of these hormones in the human brain is not yet well understood. But while it is unlikely that people have a mental, smell-based map of their partners in the way that voles do, there are strong hints that the hormone pair have something to reveal about the nature of human love: among those of Man's fellow primates that have been studied, monogamous marmosets have higher levels of vasopressin bound in the reward centres of their brains than do non-monogamous rhesus macaques.

Other approaches are also shedding light on the question. In 2000, Andreas Bartels and Semir Zeki of University College, London, located the areas of the brain activated by romantic love. They took students who said they were madly in love, put them into a brain scanner, and looked at their patterns of brain activity.

The results were surprising. For a start, a relatively small area of the human brain is active in love, compared with that involved in, say, ordinary friendship. “It is fascinating to reflect”, the pair conclude, “that the face that launched a thousand ships should have done so through such a limited expanse of cortex.” The second surprise was that the brain areas active in love are different from the areas activated in other emotional states, such as fear and anger. Parts of the brain that are love-bitten include the one responsible for gut feelings, and the ones which generate the euphoria induced by drugs such as cocaine. So the brains of people deeply in love do not look like those of people experiencing strong emotions, but instead like those of people snorting coke. Love, in other words, uses the neural mechanisms that are activated during the process of addiction. “We are literally addicted to love,” Dr Young observes. Like the

prairie voles.

It seems possible, then, that animals which form strong social bonds do so because of the location of their receptors for vasopressin and oxytocin. Evolution acts on the distribution of these receptors to generate social or non-social versions of a vole. The more receptors located in regions associated with reward, the more rewarding social interactions become. Social groups, and society itself, rely ultimately on these receptors. But for evolution to be able to act, there must be individual variation between mice, and between men. And this has interesting implications.

Last year, Steven Phelps, who works at Emory with Dr Young, found great diversity in the distribution of vasopressin receptors between individual prairie voles. He suggests that this variation contributes to individual differences in social behaviour—in other words, some voles will be more faithful than others. Meanwhile, Dr Young says that he and his colleagues have found a lot of variation in the vasopressin-receptor gene in humans. “We may be able to do things like look at their gene sequence, look at their promoter sequence, to genotype people and correlate that with their fidelity,” he muses.

It has already proved possible to tinker with this genetic inheritance, with startling results. Scientists can increase the expression of the relevant receptors in prairie voles, and thus strengthen the animals' ability to attach to partners. And in 1999, Dr Young led a team that took the prairie-vole receptor gene and inserted it into an ordinary (and therefore promiscuous) mouse. The transgenic mouse thus created was much more sociable to its mate.

Love, love me do

Scanning the brains of people in love is also helping to refine science's grasp of love's various forms. Helen Fisher, a researcher at Rutgers University, and the author of a new book on love*, suggests it comes in three flavours: lust, romantic love and long-term attachment. There is some overlap but, in essence, these are separate phenomena, with their own emotional and motivational systems, and accompanying chemicals. These systems have evolved to enable, respectively, mating, pair-bonding and parenting.

Lust, of course, involves a craving for sex. Jim Pfaus, a psychologist at Concordia University, in Montreal, says the aftermath of lustful sex is similar to the state induced by taking opiates. A heady mix of chemical changes occurs, including increases in the levels of serotonin, oxytocin, vasopressin and endogenous opioids (the body's natural equivalent of heroin). “This may serve many functions, to relax the body, induce pleasure and satiety, and perhaps induce bonding to the very features that one has just experienced all this with”, says Dr Pfaus.

Then there is attraction, or the state of being in love (what is sometimes known as romantic or obsessive love). This is a refinement of mere lust that allows people to home in on a particular mate. This state is characterised by feelings of exhilaration, and intrusive, obsessive thoughts about the object of one's affection. Some researchers suggest this mental state might share neurochemical characteristics with the manic phase of manic depression. Dr Fisher's work, however, suggests that the actual behavioural patterns of those in love—such as attempting to evoke reciprocal responses in one's loved one—resemble obsessive compulsive disorder (OCD).

That raises the question of whether it is possible to “treat” this romantic state clinically, as can be done with OCD. The parents of any love-besotted teenager might want to know the answer to that. Dr Fisher suggests it might, indeed, be possible to inhibit feelings of romantic love, but only at its early stages. OCD is characterised by low levels of a chemical called serotonin. Drugs such as Prozac work by keeping serotonin hanging around in the brain for longer than normal, so they might stave off romantic feelings. (This also means that people taking anti-depressants may be jeopardising their ability to fall in love.) But once romantic love begins in earnest, it is one of the strongest drives on Earth. Dr Fisher says it seems to be more powerful than hunger. A little serotonin would be unlikely to stifle it.

Wonderful though it is, romantic love is unstable—not a good basis for child-rearing. But the final stage of love, long-term attachment, allows parents to co-operate in raising children. This state, says Dr Fisher, is characterised by feelings of calm, security, social comfort and emotional union.

Because they are independent, these three systems can work

simultaneously—with dangerous results. As Dr Fisher explains, “you can feel deep attachment for a long-term spouse, while you feel romantic love for someone else, while you feel the sex drive in situations unrelated to either partner.” This independence means it is possible to love more than one person at a time, a situation that leads to jealousy, adultery and divorce—though also to the possibilities of promiscuity and polygamy, with the likelihood of extra children, and thus a bigger stake in the genetic future, that those behaviours bring. As Dr Fisher observes, “We were not built to be happy but to reproduce.”

The stages of love vary somewhat between the sexes. Lust, for example, is aroused more easily in men by visual stimuli than is the case for women. This is probably why visual pornography is more popular with men. And although both men and women express romantic love with the same intensity, and are attracted to partners who are dependable, kind, healthy, smart and educated, there are some notable differences in their choices. Men are more attracted to youth and beauty, while women are more attracted to money, education and position. When an older, ugly man is seen walking down the road arm-in-arm with a young and beautiful woman, most people assume the man is rich or powerful.

These foolish things

Of course, love is about more than just genes. Cultural and social factors, and learning, play big roles. Who and how a person has loved in the past are important determinants of his (or her) capacity to fall in love at any given moment in the future. This is because animals—people included—learn from their sexual and social experiences. Arousal comes naturally. But long-term success in mating requires a change from being naive about this state to knowing the precise factors that lead from arousal to the rewards of sex, love and attachment. For some humans, this may involve flowers, chocolate and sweet words. But these things are learnt.

If humans become conditioned by their experiences, this may be the reason why some people tend to date the same “type” of partner over and over again. Researchers think humans develop a “love map” as they grow up—a blueprint that contains the many things that they have learnt are attractive. This inner scorecard is something that people use to rate the suitability of mates. Yet the idea that humans are actually born with a particular type of “soul mate” wired into their desires is wrong. Research on the choices of partner made by identical twins suggests that the development of love maps takes time, and has a strong random component.

Work on rats is leading researchers such as Dr Pfaus to wonder whether the template of features found attractive by an individual is formed during a critical period of sexual-behaviour development. He says that even in animals that are not supposed to pair-bond, such as rats, these features may get fixed with the experience of sexual reward. Rats can be conditioned to prefer particular types of partner—for example by pairing sexual reward with some kind of cue, such as lemon-scented members of the opposite sex. This work may help the understanding of unusual sexual preferences. Human fetishes, for example, develop early, and are almost impossible to change. The fetishist connects objects such as feet, shoes, stuffed toys and even balloons, that have a visual association with childhood sexual experiences, to sexual gratification.

So love, in all its glory, is just, it seems, a chemical state with genetic roots and environmental influences. But all this work leads to other questions. If scientists can make a more sociable mouse, might it be possible to create a more sociable human? And what about a more loving one? A few people even think that “paradise-engineering”, dedicated to abolishing the “biological substrates of human suffering”, is rather a good idea.

As time goes by

Progress in predicting the outcome of relationships, and information about the genetic roots of fidelity, might also make proposing marriage more like a job application—with associated medical, genetic and psychological checks. If it were reliable enough, would insurers cover you for divorce? And as brain scanners become cheaper and more widely available, they might go from being research tools to

something that anyone could use to find out how well they were loved. Will the future bring answers to questions such as: Does your partner *really* love you? Is your husband lusting after the au pair?

And then there are drugs. Despite Dr Fisher's reservations, might they also help people to fall in love, or perhaps fix broken relationships? Probably not. Dr Pfaus says that drugs may enhance portions of the “love experience” but fall short of doing the whole job because of their specificity. And if a couple fall out of love, drugs are unlikely to help either. Dr Fisher does not believe that the brain could overlook distaste for someone—even if a couple in trouble could inject themselves with huge amounts of dopamine.

However, she does think that administering serotonin can help someone get over a bad love affair faster. She also suggests it is possible to trick the brain into feeling romantic love in a long-term relationship by doing novel things with your partner. Any arousing activity drives up the level of dopamine and can therefore trigger feelings of romance as a side effect. This is why holidays can rekindle passion. Romantics, of course, have always known that love is a special sort of chemistry. Scientists are now beginning to show how true this is.

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* “Why We Love: The Nature and Chemistry of Romantic Love”, by Helen Fisher. Henry Holt and Company, New York.

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Pensions

Easing the pain of retirement

Feb 12th 2004
From The Economist print edition

Ronald Grant Archive

Voluntary individual pensions are spreading around the developed world. But they are not yet working as well as they should be, a new book argues

"GIVE me chastity and continency, but not yet," prayed St Augustine. Substitute saving for chastity and the sentiment is as apt today as it was when the good monk of Hippo first made his entreaty more than 1,500 years ago.

Thrift is hard in a credit culture that promises to take the waiting out of wanting. Yet a revival of thrift is urgently needed in the developed world's ageing populations. Increased longevity and the greying of the post-war baby-boomers mean that many more will have to save a lot more if they are to enjoy a comfortable retirement.

During the stockmarket boom, Americans appeared to have found the answer. The 401(k) plan is a voluntary pension plan with tax advantages—hence the term 401(k) from the tax rules. Sponsored by employers, it allows workers to accumulate a nest-egg both through their own savings and company contributions.

Dubbed the "accidental pension", the 401(k) plan grew like Topsy after its birth in the early 1980s. It was popular with business, especially new firms, because it allowed them to avoid the financial risks of schemes that link pensions to final salary and years of service. It was popular with workers, especially younger ones, who could see their accounts growing in hard cash instead of distant and hard-to-understand promises. By the late 1990s, the rising value of 401(k) plans meant that many employees dreamt of retiring early on the proceeds.

Then came the bear market and the value of funds dropped dramatically, most notably for Enron employees who lost their pension assets—most of which had been invested in the company—as well as their jobs. Suddenly, 401(k) plans no longer seemed such a good idea.

Coming Up Short: The Challenge of 401(k) Plans
By Alicia H. Munnell and Annika Sundén

Brookings Institution Press; 210 pages; $34.95 and £25

Buy it at
Amazon.com
Amazon.co.uk

Alicia Munnell and Annika Sundén, who are both retirement economists in Boston, highlight a number of flaws. Participation and contribution rates are not high enough: a quarter of eligible workers never join the plans, and few save the maximum. Money leaks out when employees change jobs and liquidate their accounts rather than rolling them over into alternatives.

Investment decisions are often poor. Over half of 401(k) savers put nearly all their money into stocks or hold none at all. Hardly any rebalance their portfolios to safer bonds as they get older. Despite the Enron experience, a fifth of employees hold more than 20% of their pension assets in their own companies. When people retire they are offered lump sums rather than life annuities which protect against the risk of outliving their savings.

The authors accept, nonetheless, that “it has become a 401(k) world”. The challenge is to make voluntary personal retirement work better. They suggest introducing retirement saving by default, requiring workers to opt out of pre-determined settings in pension plans. The first default would be about participating; all employees would automatically be enrolled. This simple switch from opting in to opting out raised the participation rate in one firm from 49% to 86% of new employees.

Once in the plan, the default setting for investments would be a diversified portfolio that takes account of age, so that older people would have a higher weighting of bonds. When workers change jobs, the fund would be rolled over into another form of pension saving. On retirement, the default setting would be for an annuity.

There are formidable obstacles to this reform programme. Companies that enrol new employees automatically into their 401(k) pension plan choose a low contribution rate and put members into low-risk but low-gain investments. Obviously they do this because they do not want to be blamed if investments go wrong. If firms are to set higher contribution rates and riskier investment portfolios, they will require some form of legal protection. But the danger of over-prescriptive legislation is that it can smother the incentives for employers to sponsor 401(k) plans.

Despite these difficulties, the reforms offer an ingenious way of guiding choices in pension saving without compulsion. Individuals need to take more responsibility for their pensions but they need help. Taking control of your retirement saving should not have to mean that you have to turn into a financial expert.

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Fidel Castro and Gabriel García Márquez

Buddy, buddies

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From The Economist print edition

ONE of them is Latin America's most celebrated living author. The other is Cuba's tireless dictator. Gabriel García Márquez will not publish a book without first showing Fidel Castro his manuscript. Mr Castro calls Mr García Márquez his one true friend. At a time when even erstwhile supporters have become disillusioned with the Cuban regime, the author of “One Hundred Years of Solitude” continues professing loyalty to the bearded *Comandante*.

Gabo y Fidel:
El Paisaje de una Amistad
By Ángel Esteban and Stéphanie Panichelli

Espasa Calpe; 341 pages; €18

A Spanish-Belgian academic duo, Ángel Esteban and Stéphanie Panichelli, have investigated the long-standing relationship between Gabo and Fidel. At the heart of their rambling, though well-documented book, which was recently published in Spain, is the issue of the complex rapport between intellectuals and politicians. The Cuban ruler and the Colombian novelist, they argue, have developed a marriage of convenience born out of genuine mutual appreciation.

Mr García Márquez was an early supporter of the Cuban revolution. His friendship with Mr Castro, however, grew out of the latter's admiration for his novels. When Mr García Márquez received the 1982 Nobel prize for literature, Mr Castro shipped 1,500 bottles of Cuban rum to Stockholm. Shortly after, he offered him the mansion in Havana's elegant Siboney district at which Gabo still spends much of his time.

By feting the novelist, Mr Castro gained an internationally acclaimed ambassador at large. The Nobel laureate, who has never hidden his fascination with power and its trappings, found in Mr Castro the live incarnation of near-absolute power—and an opportunity to exercise his political influence from the sidelines.

What outrages Mr García Márquez's detractors is that he has chosen to remain defiantly silent while the rest of the world pours scorn on Mr Castro's repressive policies. Can pure friendship explain his acute case of what one critic called “Castroenteritis”?

Perhaps, as Mr Esteban and Ms Panichelli teasingly suggest, he is simply waiting for the ultimate scoop—the definitive insider's account of Fidel's life and times.

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About sponsorship

Cuba

Ballet and the beards

Feb 12th 2004
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THE strangest thing about Fidel Castro's Cuban revolution is its current status as a curio. “The revolution that was supposed to modernise the world,” Alma Guillermoprieto writes, “is now treasured as a timeless relic by tourists from a world all too horrifyingly modern.” Indeed, the Cuban revolution once moved and polarised like no other event in Latin America in the 20th century. A generation of young idealists across the region, many of them the best and brightest of the middle class, were inspired to imitate it, with tragic consequences. Most wasted their lives in sterile sacrifice. Having seen Cuba's pre-revolutionary elite flee to Miami, stripped of property and money, their counterparts elsewhere had no intention of suffering the same fate, and, with American support, called in the juntas and torturers.

Ms Guillermoprieto, perhaps the best journalistic chronicler of contemporary Latin America, spent some six months in Cuba in 1970 as a teacher of modern dance when she was just 21. This book is far more personal than anything she has published before. It is an insightful account of a time when the revolution was past its dawn but had not yet descended into cynical political bankruptcy. It is also a powerful memoir of a sometimes painful journey that “thoroughly unravelled” its author's life, turning a naive young artiste into a confusedly politicised adult. She insists that it is “a faithful transcription of my memories”, though she admits that some of these may have been invented.

The book begins in the world of the great names of modern dance in New York. Ms Guillermoprieto, a Mexican, trained at the Martha Graham studio and with Twyla Tharp, before receiving a chance offer to teach at Havana's National Schools of Art. Once there, she discovers that the school has no money, no mirrors, an ineffectual director, and is frowned upon by most of Cuba's political leadership. That was not only because of Mr Castro's perennial difficulties with intellectuals. It was also, the author learned much later, because of his regime's contempt for (and fear of) homosexual ballet dancers. Ironically, the leadership embraced Alicia Alonso, a classical ballerina who danced pieces from tsarist Russia—a safe option.

The author's Cuban sojourn coincided with the failure to achieve a 10m-tonne sugar harvest—a crazily costly attempt by Mr Castro to free himself of the need for Soviet subsidies. Despite many privations, most Cubans were still loyal to their leader in those days. The author predictably falls under the spell of the personality cults of Fidel and Che Guevara, as so many others have done before and since. But she had many doubts about the revolution, doubts which helped to trigger an acute depression. This is intensified by loveless relationships with visiting Latin American guerrillas, whose machismo was amplified by the arrogance that comes from believing themselves to be monopoly bearers of historical truth.

For friendship, she relied on an engaging group of gays, whose passionate defence of the revolution could not conceal their frustration at its artistic vacuity. Her other emotional prop was her admiration for her students. This was reciprocated: they staged a brief strike, one of whose demands was that the author be appointed director of the dance school, an event that merely ensured her premature departure, about which she had no regrets.

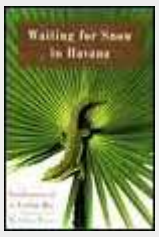
Despite the teleological risk in such a memoir, this book carries the flavour of authenticity. Ms

Dancing with Cuba: A Memoir of the Revolution
By Alma Guillermoprieto

Pantheon Books; 304 pages; $25

Buy it at
Amazon.com
Amazon.co.uk

Waiting for Snow in Havana: Confessions of a Cuban Boy
By Carlos Eire



Free Press; 387 pages; $25. Scribner; £7.99

Buy it at
Amazon.com
Amazon.co.uk

Guillermoprieto shows how the revolution's achievements in health and education came at an unacceptable cost, not least in excruciating intellectual dishonesty. At a time when some Latin American anti-globalisation activists are looking to the old man in Havana for leadership, that is a crucial reminder.

One of those who bore a far bigger cost was Carlos Eire, whose poignant account of the tropical lost paradise of his childhood spent among the pampered rich of pre-revolutionary Havana recently won the National Book Award in the United States. Mr Eire was one of 14,000 “Pedro Pan” children who were airlifted out of Cuba in 1962, shortly after the failure of the Bay of Pigs invasion, the CIA-organised effort to topple Mr Castro. The son of an eccentric judge, who imagined himself to have been Louis XVI in a previous incarnation, he lost everything. After a humiliating strip-search at the airport, he arrived in the United States aged 11, with only his brother for company. His mother would join them almost four years later; his father opted to stay with his art collection and his opportunist adopted son in Havana.

In America, Mr Eire, a professor of history and religion at Yale University, found himself looked down on as a “spic”; as a teenager he had to wash plates on the night-shift at a Chicago hotel. His book seethes with rage at Mr Castro and Che, who moved into a neighbour's mansion, with his Mercedes and bodyguards. Only through Catholicism, he hints, has he reconciled himself with his personal history. Mr Eire writes vividly, mixing staccato sentences with some of the devices of magic realism. He shows little awareness of the injustices of the regime of Fulgencio Batista (though one of the dictator's sons, a cowardly bully, was a classmate). The Cuban exiles have had a bad press: he does much to humanise their loss. As well as the sugar barons, the Chinese man with his hot-dog stand on the corner of Mr Eire's street in Havana's Miramar district lost everything too.

Of Mr Castro, he recalls seeing him speak at a rally: “He was telling us what was good. Telling us how we should think. He was telling us what to choose and how to choose it. He was telling us we had no choice. And he was telling us we were free. Free at last.”

Dancing with Cuba: A Memoir of the Revolution.
By Alma Guillermoprieto.
Pantheon Books; 304 pages; $25

Waiting for Snow in Havana: Confessions of a Cuban Boy.
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About sponsorship

Psychobabble and other isms

The march of unreason

Feb 12th 2004
From The Economist print edition

There's nowt as queer as folk

THERE is a great deal of nonsense talked in the world, and this panoramic book is an entertaining guide. It is best read as a series of individual essays, of sharply varying interest. Some of them are excellent, some overstated and some more nonsensical than their targets. Which chapters fall into which category will depend on the reader's political, religious and cultural outlook.

The first chapter, for example, pokes fun at the exaggerated claims made for market economics in the 1980s. This will please people who shiver at the mere mention of Ronald Reagan or Margaret Thatcher. Those who believe the decade ended magnificently, with unparalleled prosperity and the collapse of totalitarianism, will find the author rather snide.

The next chapter, rather more convincingly, ridicules the truisms of management-speak. That may annoy people who make their living from flip-charts and bullet points. It fails to acknowledge that some of the thoughts behind the jargon are useful and interesting. But those who have suffered at the hands of consultants and management theorists will find themselves chuckling nonetheless.

The third target is a flimsy one: the once-fashionable theorists of geopolitics, Samuel Huntington and Francis Fukuyama. It may well have been rash to talk of the “clash of civilisations” and the “end of history” in such sweeping terms—but if nobody stated any theory boldly, the world would be a lot duller. It seems harsh to ridicule people for being interesting.

How Mumbo-Jumbo Conquered the World: A Short History of Modern Delusions
By Francis Wheen

Fourth Estate; 338 pages; £16.99. To be published in America as "Idiot Proof" by PublicAffairs in June

Buy it at
Amazon.co.uk

Francis Wheen's golden age is the Enlightenment, and he is scathing in his treatment of the pedantic wafflers and superstitious boobies who seek to undermine its legacy of reason and conscience. There is a superb demolition of the post-modernists, followed by an equally caustic survey of modern irrationality: everything from quack medicine to UFOs. Then come religious maniacs of all descriptions, xenophobes and (a particular treat) the trend towards mawkishness that was exemplified in the reaction to Princess Diana's death in 1997. The three concluding chapters deal first with the particularly pretentious kind of nonsense talked by New Labour, and then with globalisation and the bubble economy of recent years.

Mr Wheen is an accomplished stylist and his writing leaps off the page. But the overall result is rather unsatisfying. Nothing pleases him: the ponderous jargon of left-wingers is no better than free-marketeers' optimistic blather. Religion is bunk; so is literary criticism. His intellectual home seems to be a kind of old-fashioned secular leftism that ran out of steam in the 1970s. Those who remember it will recall quite a bit of nonsense talked then—by British trades unionists, for example. But that receives no mention.

Furthermore, the aim of presenting some sort of unified field theory of nonsense is overly ambitious. The opening conceit, that the return of Ayatollah Khomeini in Iran in 1979 and the coming to power in the same year of Margaret Thatcher's right-wing government in Britain are somehow parts of the same phenomenon—“two messiahs” in his oddly ill-chosen phrase—simply doesn't work.

The third big idea, that we are newly plagued by particularly pernicious nonsense, is also overdone. As Mr Wheen implicitly concedes in his frequent historical allusions, there has been religious, political and economic mumbo-jumbo since the dawn of civilisation. Which is no reason not to laugh at it.

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By Francis Wheen.
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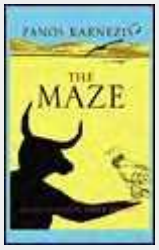
New fiction

The big infamy

Feb 12th 2004
From The Economist print edition

IN MID-AUGUST 1922, an enormous swathe of western Anatolia was under the control of the Greek army, encamped along a winding 400-mile front which at one point was in striking distance of Turkey's new seat of power, Ankara. A month later, the expeditionary force had been smashed, and the Hellenic presence in Asia Minor had been terminated. Part of the Greek army dissolved into disarray as it fled towards the Aegean, torching Turkish towns and committing some horrible atrocities. Another part managed to withdraw, relatively intact, via the Sea of Marmara. The net result was that by mid-September, almost every trace of Greekness in Anatolia had either been destroyed or routed. It was not just Greek soldiers who fled for their lives, but nearly 1m Orthodox Christian civilians, many of whom had lived prosperously, and in relative harmony with their Muslim neighbours, until a decade earlier.

The Maze
By Panos Karnezis



Farrar, Straus and Giroux; 376 pages; $24. Jonathan Cape; £12.99

Buy it at
Amazon.co.uk

These extraordinary events—known as the War of Independence (or Liberation) by Turks, and the Asia Minor Catastrophe by Greeks—form the background to the first novel by Panos Karnezis. He is a Greek-born writer who has settled in England, made the English language his own and won huge acclaim for his short stories.

Much of his new work is in a similar vein: one by one he introduces us to a series of deeply imperfect but often endearing characters, who are either soldiers in the retreating Greek army, or Greek residents of a sleepy, doomed town where Christians used to live well. Almost everyone has a hidden vice or passion: the brigadier is addicted to morphine, his chief of staff is a secret communist and the padre, Father Simeon, is a hopeless kleptomaniac. In the town, the mayor and the schoolmaster compete for the attentions of the local courtesan, a Frenchwoman who is nurturing her own guilty secrets. The foibles of these people are described with an insight and an eye for quirky detail that is generally impressive and at times brilliant. Mr Karnezis is fascinated by moral and physical decay—dusty, ragged uniforms, salons and even baptismal fonts where rodents run riot, characters who have lost all dignity and self-respect.

Some readers will be exasperated by the narrative's torpid pace—especially given the historical context, a time when events were moving with lightning rapidity. Some may conclude that Mr Karnezis is still a short-story writer, a creator of clever vignettes, rather than a novelist. But towards the end, as the town's Greek quarter lives out its final days, the characters' fates become intertwined in a poignant and arresting way. There is one figure who does not entirely convince, and that is the priest who is seized by a desire to convert the local Turks and goes mad instead. While Father Simeon's light-fingered duplicity and petty vanities are well described, there is scant empathy with the light by which, however fallibly, this ragged cleric has chosen to live his life.

To anyone who knows Greek rural culture, that seems a curious lacuna. In that world, the clergy are assumed to have more than their share of faults; but they are cheerfully tolerated because they are seen as unworthy guardians of a great and ineffable mystery—and at some level the priests feel that paradox too. Mr Karnezis shows no such leniency; he does not like priests very much, and that makes it hard for him to see what really motivates this troubled soul.

The Maze.
By Panos Karnezis.
Farrar, Straus and Giroux; 376 pages; $24. Jonathan Cape; £12.99

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About sponsorship

New opera

Tom's tempest

Feb 12th 2004
From The Economist print edition

Thomas Adès's new work raises a storm

HE IS the youngest composer in living memory to have an opera premiered at Covent Garden. Thomas Adès's first opera, “Powder Her Face”, a fantasy based on the life of a once scandalous English aristocrat, Margaret, Duchess of Argyll, achieved instant success—and not just because of its notorious “fellatio” aria.

So Mr Adès's fans have been agog to see his latest work. With its magical power, revenge and love triumphant, “The Tempest” is the Shakespeare play that has attracted most opera composers. Of at least two dozen efforts, only Sir Michael Tippett's “The Knot Garden” and Luciano Berio's “Un Re in Ascolto” remain in the repertory, perhaps because like Mr Adès they use the play merely as a starting point.

The composer uses a rich palette of instrumental colours, looking back sometimes to Richard Wagner and the late Romantic tradition, especially in the brass, but more often recalling the impressionism of Maurice Ravel or the neoclassicism of Igor Stravinsky and Leonard Bernstein. Like Meredith Oakes's rhyming couplets, it is witty and concise. The high points are the trio which ends Act 1, in which Prospero is confronted by the prospect of losing his daughter Miranda to the unexpectedly attractive Ferdinand, and the love duet in Act 2, the most audaciously sentimental music Mr Adès has yet written.

In rehearsal, a few of the singers were complaining of the high vocal lines, and Mr Adès had to readjust at least some of the more extreme climaxes. In performance, though, the voices were used with admirable sensitivity. Simon Keenlyside plays a memorably donnish Prospero, but the opera will be branded as the evening of four tenors: Ian Bostridge (Caliban), John Daszak (Antonio), Philip Langridge (King of Naples) and Toby Spence (Ferdinand) are all used to rich effect. Among the lower voices, Christopher Maltman (Sebastian) and Gwynne Howell (Gonzalo), have a tense duet as they plan to murder the king. Christine Rice is a luscious Miranda, but the triumph of the first night was the dazzling soprano of Cyndia Sieden as Ariel, for whom Mr Adès has composed a sequence of stratospheric interjections for every time she/he arrives to help Prospero weave his spells.

Moritz Junge's costumes add style to Tom Cairns's production: the king, all executive in his maroon lounge suit, Ariel in skintight body stocking and the courtiers quite status-conscious in their epaulettes. The set is a huge white plaster sculpture of a lap-top, which constantly revolves, or opens and closes on its hinges, to serve as cliff, shore, ship or prison. Wolfgang Göbbel's lighting provides exciting laser-effects, and the high-wire choreography of Aletta Collins, using just three dancers, offers a commentary on the action. The first-night audience on February 10th were unsure whether they should laugh or not at some of the more elaborate visual, textual and orchestral rhymes and puns, but they cheered the cast roundly at the end. For Mr Adès's fans, it was worth the wait.

“The Tempest” is at the Royal Opera House, Covent Garden, London, until February 20th

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About sponsorship

Janet Frame

Feb 12th 2004
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Canterbury Museum

Janet Frame, a chronicler of mental turmoil, died on January 29th, aged 79

“THIS book...is a work of fiction. None of the characters, including Istina Movet, portrays a living person.” The disclaimer to Janet Frame's second novel, “Faces in the Water”, published in 1961, fooled no one. Istina Movet was herself in the thinnest disguise, enduring the full barbarities of the treatment of mental illness in New Zealand in the mid-20th century.

Miss Frame was first institutionalised in 1945, when she was 21. The doctors diagnosed incipient schizophrenia. As she explained it, a great gap had opened up between herself and the world, “drifting away through a violet-coloured sea where hammer-nosed sharks in tropical ease swam side by side with the seals and the polar bears.” No comforting god appeared to remove “the foreign ideas, the glass beads of fantasy, the bent hair-pins of unreason” embedded in her mind. She needed “treatment”—electro-convulsive therapy at the Seacliff hospital in Dunedin.

Every part of this therapy was horrific to her. The sleek, cream-painted machine with its knobs and lights; the smell of methylated spirits, rubbed on her temples so that the shock would take; the grey woollen socks she would compulsively wear on treatment days, “to ward off death”; the stifled, choking cries of other patients; and the shock itself, a trap-door dropping open on darkness. As she came round afterwards, her tears kept falling “in a grief that you cannot name”.

For almost a decade, Miss Frame moved in and out of institutions. Since electric-shock treatment did little for her, it was decided in 1952 that she needed a lobotomy. She had often seen such patients returning from the hospital, “with plaster over their shaven heads...and the pupils of their eyes large and dark as if filled with ink.” Now she, too, was to be “changed” into someone biddable and quiet.

But she had also been writing while in hospital. In the nick of time, “The Lagoon”, a collection of short stories, was published and won New Zealand's highest literary prize. “I've decided that you should stay as you are. I don't want you changed,” said Seacliff's chief surgeon. As Miss Frame later agreed, “My writing saved me.”

It was to go on doing so. “Faces in the Water” was written as a therapeutic exercise on the advice of her psychiatrist at London's Maudsley hospital, where she admitted herself as an outpatient in 1957. To the end of her life she used writing as therapy, not caring whether she was published. Her autobiography (which was made into the film “An Angel at My Table” in 1990) was meant to set the record straight and

show that she was not disturbed. She loathed being labelled a “mad genius”.

Yet as her fame spread abroad, leading last October to her nomination for the Nobel prize for literature, she admitted that madness was a mantle for her. When her Maudsley doctors had told her that she was not schizophrenic, she remembered wistfully

> how...I had accepted (my schizophrenia), how in the midst of the agony and terror of the acceptance I found the unexpected warmth, comfort, protection: how I had longed to be rid of the opinion but was unwilling to part with it. And even when I did not wear it openly I always had it by for emergency, to put on quickly, for shelter from the cruel world. And now it was gone...

A railway child

If she was not mad, perhaps her strangeness, shyness and social ineptitude sprang from her background. She was born in Dunedin, in New Zealand's far south. Her father worked on the railways, and the family moved constantly from small town to small town: Outram, Glenham, Wyndham, Oamaru. They were poor but artistic; her mother, a poet and Christadelphian, encouraged her children to “wondrous contemplation” of stones, stars and words.

At four, Janet made up her first story. At around that age, too, she had what she described as “my first conscious feeling of an outside sadness”, as she stood on the long white road that ran past the Outram swamp and heard the wind sighing in the telephone wires. Already, “Outside” and “Inside” were in strong conflict in her life. At school, red-haired and gawky, she found her inner world of books taking over the “real” world, “the literature streaming through it like an array of beautiful ribbons through the branches of a green, growing tree.”

As she grew older, having lost two sisters by drowning, she sought the Inside more and more: in imaginary diaries, in the huts where she hid to write, or in the linen cupboard at Seacliff, with its little dusty window looking over lawns to the sea:

> ...the prospect of the world terrified me: a morass of despair, violence, death with a thin layer of glass spread upon the surface where Love, a tiny crab with pincers and rainbow shell, walked delicately ever sideways but getting nowhere.

Miss Frame came to terms with the world eventually, but never needed its approval. Nor did she lose her restlessness. When she was nominated for the Nobel prize, an honour that did not excite her, she was asked how she would spend the prize money. She said she would use it to buy back New Zealand's now-privatised railways, the fabric of her tortured past.

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Overview

Feb 12th 2004
From The Economist print edition

America's unemployment rate edged down to 5.6% in January from 5.7% in December. Non-farm payrolls were reckoned to have risen by 112,000 in January.

After the G7 issued a communiqué saying that “excess volatility and disorderly movements in exchange rates are undesirable”, the **euro** continued its march against the dollar and hit $1.28.

Germany's industrial production rose by 0.6% in December, defying forecasts of a decline during the month. For the year to December, industrial production rose by 3.5%. Exports grew by 1.6% and hit a record high in 2003, despite the euro's rise of more than 20% against the dollar during the year.

The **Dutch** economy is stuttering. Industrial production fell by 3.0% in the year to December, and retail sales fell by 5.5% in the year to November.

Switzerland's unemployment rate rose to 4.3% in January, up from 4.1% in December.

In **Britain**, however, the unemployment rate fell to historic lows. The ILO measure fell to 4.9% in the fourth quarter, the lowest since records for it began in 1984. By the claimant-count measure, unemployment fell to its lowest level since 1975. Industrial production fell by 0.1% in December, making for a year-on-year decline of 0.8%.

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Output, demand and jobs

Feb 12th 2004
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2003	2004	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 2.6	Q3	+ 4.8	+ 2.8	+ 3.7	– 0.1	Q3	+ 7.3	Q4	5.7	Jan	6.1
Austria	+ 0.8	Q3	+ 1.4	+ 0.9	+ 1.9	+ 7.2	Aug	– 6.1	Nov	4.6	Dec	4.3
Belgium	+ 0.8	Q3	+ 2.2	+ 1.0	+ 1.9	– 6.6	Nov	– 4.3	Nov	12.9	Jan†	11.9
Britain	+ 2.5	Q4	+ 3.8	+ 2.1	+ 2.8	– 0.8	Dec	+ 4.0	Dec	4.9	Dec††	5.1
Canada	+ 1.0	Q3	+ 1.1	+ 1.7	+ 3.1	nil	Nov	+ 2.1	Nov	7.4	Jan	7.5
Denmark	– 0.5	Q3	– 0.8	+ 0.3	+ 2.2	– 0.2	Dec	+ 2.3	Dec	6.6	Dec	5.4
France	+ 0.5	Q4	+ 2.0	+ 0.2	+ 1.9	+ 2.0	Dec	– 2.2	May	9.7	Dec	9.3
Germany	+ 0.2	Q4	+ 0.9	– 0.1	+ 1.7	+ 3.5	Dec	– 2.5	Nov	10.2	Jan§	10.3
Italy	+ 0.5	Q3	+ 2.0	+ 0.5	+ 1.7	+ 0.2	Nov	– 2.8	Nov	8.4	Oct	8.9
Japan	+ 1.8	Q3	+ 1.4	+ 2.3	+ 2.1	+ 5.7	Dec	– 0.1	Dec	4.9	Dec	5.3
Netherlands	– 0.5	Q4	+ 1.2	– 0.8	+ 1.0	– 3.0	Dec	– 5.5	Nov‡	5.7	Dec**	4.4
Spain	+ 2.4	Q3	+ 2.9	+ 2.4	+ 3.0	+ 3.6	Dec	+ 2.9	Nov	11.2	Dec	11.5
Sweden	+ 2.0	Q3	+ 1.9	+ 1.6	+ 2.4	+ 3.0	Nov	+ 4.2	Dec	5.1	Dec†	4.1
Switzerland	– 0.6	Q3	+ 1.0	– 0.4	+ 1.6	+ 0.4	Q3	– 4.0	Nov	4.3	Jan†	3.5
United States	+ 4.3	Q4	+ 4.0	+ 3.2	+ 4.6	+ 2.3	Dec	+ 7.4	Dec	5.6	Jan	5.8
Euro area	+ 0.3	Q3	+ 1.5	+ 0.5	+ 1.9	+ 1.2	Nov	– 1.6	Nov	8.8	Dec	8.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 1.6	Q3	+ 3.2	na	na	+ 1.0	Dec	+ 5.3	Oct	8.2	Dec†	8.1
Greece	+ 5.0	Q3	+ 1.8	na	na	+ 3.9	Oct	+ 5.2	Sep	na		na
Iceland	+ 3.2	Q3	na	na	na	– 0.3	2002	na		3.4	Dec†	3.0
Ireland	– 0.1	Q3	na	na	na	+17.0	Dec	+ 1.2	Nov	4.7	Dec	4.3
Luxembourg	+ 1.3	2002	na	na	na	+ 4.4	Nov	+ 2.0	Sep	4.1	Dec	3.4
New Zealand	+ 3.5	Q3	+ 6.3	na	na	+ 4.1	Q3	+ 6.1	Q3	4.6	Q4	4.9
Norway	+ 0.2	Q3	+ 3.3	na	na	– 4.5	Dec	+ 4.4	Dec	4.2	Q4	3.7
Portugal	– 0.9	Q3	– 2.1	na	na	+ 2.0	Dec	– 0.4	Nov	6.3	Q3†	5.1

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Oct-Dec; claimant count rate 4.9% in Dec. §EU harmonised rate 10.2% in Jan. **Oct-Dec.

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Prices and wages

Feb 12th 2004
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2003	2004	latest		year ago	latest		year ago
Australia	+ 2.4	Q4	+ 3.0	+ 2.7	+ 2.2	– 1.1	Q4	+ 1.6	+ 5.1	Q3	+ 3.6
Austria	+ 1.2	Dec	+ 1.8	+ 1.3	+ 1.2	+ 2.2	Jan	+ 1.4	+ 2.3	Dec	+ 2.2
Belgium	+ 1.6	Jan	+ 1.2	+ 1.5	+ 1.4	– 0.4	Dec	+ 1.9	+ 1.8	Q4	+ 2.2
Britain	+ 1.3	Dec*	+ 1.7	+ 1.4	+ 1.5	+ 1.6	Jan	+ 1.3	+ 3.5	Nov	+ 3.8
Canada	+ 2.0	Dec	+ 3.9	+ 2.7	+ 1.6	– 3.4	Dec	+ 2.8	+ 3.5	Nov	+ 1.9
Denmark	+ 1.1	Jan	+ 2.6	+ 2.1	+ 1.6	+ 0.2	Dec	+ 1.3	+ 3.6	Q3	+ 3.9
France	+ 2.2	Dec	+ 2.3	+ 2.1	+ 1.7	+ 0.4	Dec	+ 1.3	+ 2.9	Q3	+ 3.5
Germany	+ 1.3	Jan	+ 1.0	+ 1.1	+ 1.0	+ 0.4	Jan	+ 1.2	+ 1.6	Nov	+ 2.8
Italy	+ 2.2	Jan	+ 2.8	+ 2.8	+ 2.3	+ 0.8	Dec	+ 2.0	+ 2.7	Dec	+ 2.2
Japan	– 0.4	Dec	– 0.3	– 0.3	– 0.2	nil	Jan	– 1.0	+ 1.9	Dec	– 1.4
Netherlands	+ 1.4	Jan	+ 2.4	+ 2.2	+ 1.5	+ 0.6	Dec	+ 4.2	+ 1.8	Jan	+ 3.5
Spain	+ 2.6	Dec	+ 4.0	+ 2.9	+ 2.6	+ 1.1	Dec	+ 2.0	+ 3.1	Q3	+ 3.8
Sweden	+ 1.4	Dec	+ 2.3	+ 2.1	+ 1.4	– 1.9	Dec	– 0.6	+ 3.3	Nov	+ 3.9
Switzerland	+ 0.2	Jan	+ 0.9	+ 0.6	+ 0.5	– 0.2	Dec	– 0.4	+ 1.8	2002	+ 2.5
United States	+ 1.9	Dec	+ 2.4	+ 2.3	+ 1.5	+ 4.0	Dec	+ 1.2	+ 2.0	Jan	+ 3.0
Euro area	+ 2.0	Jan	+ 2.1	+ 2.0	+ 1.7	+ 1.0	Dec	+ 1.5	+ 2.6	Q3	+ 3.1
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.6	Dec	+ 1.7	na	na	– 0.4	Dec	+ 1.4	+ 3.9	Q3	+ 4.1
Greece	+ 2.9	Jan	+ 3.1	na	na	+ 2.6	Nov	+ 2.1	na		na
Iceland	+ 2.3	Feb	+ 1.5	na	na	+ 1.3	Jan	+ 2.7	+ 5.4	Dec	+ 5.4
Ireland	+ 1.9	Dec	+ 5.0	na	na	– 9.1	Dec	– 2.5	+ 4.7	Q3	+ 6.0
Luxembourg	+ 2.1	Dec	+ 2.2	na	na	+ 0.8	Nov	– 0.1	+ 0.6	Nov	+ 3.2
New Zealand	+ 1.6	Q4	+ 2.7	na	na	+ 0.1	Q3	– 2.1	+ 2.3	Q4	+ 2.1
Norway	– 1.8	Jan	+ 5.0	na	na	– 0.1	Jan	+11.6	+ 4.3	Q3	+ 5.0
Portugal	+ 2.4	Dec	+ 4.0	na	na	nil	Dec	+ 1.3	– 1.7	Nov	– 0.5

*New series. RPI inflation rate in December: 2.8% (corrected).

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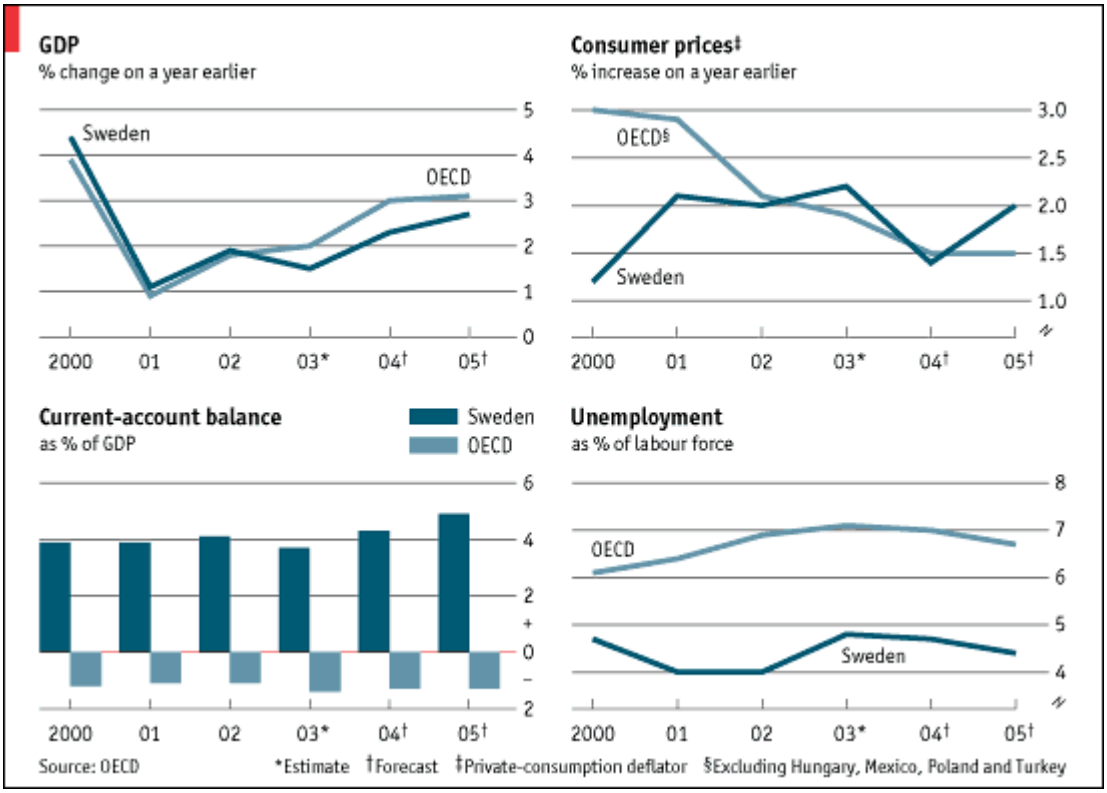
Sweden

Feb 12th 2004
From The Economist print edition



The Swedish economy performed better than the euro area in 2002 and 2003. Output grew by 1% a year faster—one reason why Swedes voted against joining the euro last September. Now Sweden looks poised for a stronger recovery over the next two years. According to the OECD, output will grow by 2.3% in 2004 and by 2.7% in 2005, compared with 1.8% and 2.5% respectively in the euro area. Inflation will return to the 2% target and the unemployment rate will fall. Despite the favourable outlook, the OECD thinks that the supply side of the economy requires reforms. It recommends steps to increase competitive pressures throughout the economy, including Sweden's vast public services. It calls for further reductions in marginal tax rates to increase work effort. And it stresses the need to reduce the incidence of unwarranted sick leave.

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Money and interest rates

Feb 12th 2004
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Feb 11th 2004)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 8.7	+13.7	Dec	5.55	4.73	5.27	5.61	5.20	6.46
Britain	+ 7.4	+ 6.7	Dec	4.13	3.69	4.29	4.75	4.12	5.61
Canada	+10.0	+ 6.9	Dec	2.22	2.84	2.42	4.39	5.06	5.98
Denmark	+ 8.8	+ 8.8	Dec	2.15	3.10	2.56	4.25	4.16	5.34
Japan	+ 4.3	+ 1.6	Jan	0.03	0.03	0.06	1.26	0.85	1.39
Sweden	+ 2.8	+ 2.6	Dec	2.46	3.63	3.10	4.50	4.40	3.25
Switzerland	+21.0	+ 7.6	Dec	0.25	0.60	0.34	2.39	2.24	2.46
United States	+ 6.3	+ 3.3	Dec	1.01	1.28	1.71	4.02	3.91	5.66
Euro area†	+10.6	+ 7.1	Dec	2.07	2.73	2.39	4.09	3.91	3.97

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.90%, Japan No. 257 1.26%. Central bank rates: US fed funds 1.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.0%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Feb 12th 2004
From The Economist print edition

1995=100

	Feb 3rd	Feb 10th*	% change on one month	% change on one year
Dollar index				
All items	91.9	93.2	+ 1.1	+16.9
Food	89.1	89.4	– 0.7	+ 9.0
Industrials				
All	95.7	98.5	+ 3.5	+28.3
Nfa†	91.9	95.1	+ 1.9	+19.1
Metals	99.0	101.4	+ 4.8	+36.6
Sterling index				
All items	78.9	78.9	+ 0.3	+ 1.4
Euro index				
All items	96.3	96.6	+ 1.9	– 1.4
Yen index				
All items	103.1	104.8	+ 0.6	+ 1.7
Gold				
$ per oz	403.00	408.50	– 3.8	+12.5
West Texas Intermediate				
$ per barrel	34.18	33.92	– 1.3	– 4.3

* Provisional. † Non-food agriculturals.

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Stockmarkets

Feb 12th 2004
From The Economist print edition

Market indices

	Feb 11th	2003-04 high	2003-04 low	% change on one week	% change on record high	% change on Dec 31st 2002 in local currency	% change on Dec 31st 2002 in $ terms
Australia (All Ordinaries)	3,315.3	3,346.2	2,673.3	+ 1.1	– 3.6	+11.4	+54.1
Austria (ATX)	1,778.2	1,778.2	1,120.2	+ 1.6	nil	+54.6	+86.8
Belgium (Bel 20)	2,418.8	2,418.8	1,426.6	+ 1.6	–34.3	+19.4	+44.3
Britain (FTSE 100)	4,396.1	4,518.1	3,287.0	– 0.1	–36.6	+11.6	+29.4
Canada (Toronto Composite)	8,767.7	8,767.7	6,228.6	+ 2.7	–23.0	+32.6	+57.1
Denmark (KBX)	236.1	236.1	145.0	+ 3.4	–21.8	+42.0	+71.0
France (SBF 250)	2,511.5	2,519.6	1,630.1	+ 2.2	–42.8	+22.3	+47.7
(CAC 40)	3,677.9	3,706.8	2,403.0	+ 1.9	–46.9	+20.0	+45.0
Germany (DAX)	4,122.2	4,151.8	2,203.0	+ 2.3	–48.9	+42.5	+72.1
Italy (BCI)	1,296.9	1,310.9	959.4	+ 0.8	–40.6	+18.8	+43.5
Japan (Nikkei 225)	10,365.4	11,161.7	7,607.9	– 0.8	–73.4	+20.8	+35.7
(Topix)	1,025.3	1,105.6	770.6	+ 0.3	–64.5	+21.6	+36.5
Netherlands (AEX)	357.6	359.2	218.4	+ 2.5	–49.0	+10.8	+33.8
Spain (Madrid SE)	856.4	856.4	576.8	+ 3.6	–25.3	+35.1	+63.2
Sweden (Affarsvarlden Gen)	205.8	205.8	127.8	+ 4.1	–48.6	+41.7	+71.1
Switzerland (Swiss Market)	5,882.1	5,882.1	3,675.4	+ 1.8	–30.1	+27.0	+41.6
United States (DJIA)	10,737.7	10,737.7	7,524.1	+ 2.5	– 8.4	+28.7	+28.7
(S&P 500)	1,157.8	1,157.8	800.7	+ 2.8	–24.2	+31.6	+31.6
(NASDAQ Comp)	2,089.7	2,153.8	1,271.5	+ 3.7	–58.6	+56.5	+56.5
Europe (FTSE Eurotop 300)*	996.0	996.0	682.7	+ 1.7	–41.6	+16.2	+40.4
Euro area (FTSE Ebloc 100)*	870.0	872.9	565.7	+ 2.3	–43.9	+21.1	+46.3
World (MSCI)†	1,076.3	1,076.3	710.8	+ 2.7	–25.7	+35.9	+35.9
World bond market (Citigroup)‡	615.2	615.2	518.6	+ 1.0	nil	+17.1	+17.1

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Feb 12th 2004
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2003	2004	Exchange rate trade-weighted† 1990=100 Feb 11th	year ago	Currency units per $ Feb 11th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2003‡
Australia	− 15.3	Dec	− 27.2	Q3	− 6.2	− 5.3	89.6	76.3	1.28	1.69	2.40	1.63	1.22	0.8
Austria	− 0.6	Oct	− 0.1	Nov	− 0.1	− 0.2	103.2§	101.3	0.79	0.93	1.47	–	0.75	-1.3
Belgium	+ 19.8	Nov	+ 9.9	Sep	+ 4.6	+ 4.8	103.5§	100.7	0.79	0.93	1.47	–	0.75	0.2
Britain	− 74.7	Dec	− 36.1	Q3	− 2.1	− 2.1	104.6	103.3	0.54	0.62	–	0.68	0.51	-2.9
Canada	+ 41.1	Nov	+ 16.7	Q3	+ 1.9	+ 1.3	86.0	77.1	1.33	1.53	2.49	1.69	1.26	1.0
Denmark	+ 9.9	Nov	+ 5.9	Nov	+ 2.7	+ 2.5	107.0	104.6	5.88	6.92	11.0	7.45	5.56	0.8
France	+ 4.6	Nov	+ 20.3	Nov	+ 1.3	+ 1.2	107.1§	103.8	0.79	0.93	1.47	–	0.75	-4.0
Germany	+146.8	Dec	+ 56.3	Dec	+ 2.4	+ 2.6	104.8§	100.9	0.79	0.93	1.47	–	0.75	-4.1
Italy	+ 2.9	Nov	− 19.3	Nov	− 1.1	− 0.9	76.4§	74.0	0.79	0.93	1.47	–	0.75	-2.7
Japan	+105.5	Dec	+136.0	Dec	+ 3.0	+ 3.0	137.2	128.8	105	121	197	134	–	-7.4
Netherlands	+ 32.6	Nov	+ 17.7	Q3	+ 2.8	+ 3.2	103.1§	99.9	0.79	0.93	1.47	–	0.75	-2.4
Spain	− 51.1	Oct	− 25.0	Oct	− 2.5	− 2.5	77.5§	75.5	0.79	0.93	1.47	–	0.75	0.1
Sweden	+ 18.7	Dec	+ 14.8	Q3	+ 5.1	+ 4.9	81.9	79.3	7.22	8.50	13.5	9.15	6.83	0.2
Switzerland	+ 5.7	Dec	+ 29.4	Q3	+10.8	+10.8	110.8	116.4	1.24	1.37	2.32	1.57	1.17	na
United States	−548.6	Nov	−541.7	Q3	− 5.0	− 5.2	94.4	109.3	–	–	1.87	1.27	0.95	-4.9
Euro area	+ 84.2	Nov	+ 38.1	Nov	+ 0.5	+ 0.6	92.1	86.2	0.79	0.93	1.47	–	0.75	-2.7
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.5	Nov	+ 9.9	Nov	na	na	82.3§	79.6	0.79	0.93	1.48	–	0.75	2.6
Greece	− 24.9	Nov	− 10.4	Nov	na	na	59.8§	58.3	0.79	0.93	1.48	–	0.75	-1.6
Iceland	− 0.2	Nov	− 0.4	Q3	na	na	93.4**	92.1	68.1	77.5	127	86.3	64.4	-1.0
Ireland	+ 38.5	Nov	− 2.1	Q3	na	na	95.6§	90.3	0.79	0.93	1.48	–	0.75	-1.0
Luxembourg	− 3.3	Nov	+ 2.0	Q3	na	na	103.5§	100.7	0.79	0.93	1.48	–	0.75	-0.3
New Zealand	− 2.1	Dec	− 3.3	Q3	na	na	106.9	97.1	1.44	1.82	2.69	1.83	1.36	2.6
Norway	+ 28.1	Dec	+ 28.7	Nov	na	na	91.2	105.9	6.99	6.96	13.1	8.86	6.62	9.8
Portugal	− 13.5	Nov	− 8.1	Oct	na	na	93.4**	91.1	0.79	0.93	1.48	–	0.75	-2.9

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, December average. ‡OECD estimate.
**IMF, October average.

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Exchange-rate forecasts

Feb 12th 2004
From The Economist print edition

Exchange-rate forecasts

From J.P. Morgan Chase, currency units per $

	February 11th	3-month	12-month
Euro area*	1.27	1.32	1.37
Japan	105.7	101.0	95.0
Australia	1.28	1.25	1.20
Britain†	1.87	1.85	1.93
Canada	1.33	1.28	1.25
Denmark	5.88	5.60	5.40
Sweden	7.22	6.85	6.40
Switzerland	1.24	1.17	1.11
China	8.28	8.20	7.80
Singapore	1.67	1.68	1.65
South Korea	1161	1130	1050
Brazil	2.92	2.85	3.00
Mexico	11.0	11.3	11.6
Poland	3.82	3.60	3.40
Russia	28.5	27.0	26.0
South Africa	6.87	7.25	7.00

*$ per € †$ per £

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Overview

Feb 12th 2004
From The Economist print edition

Industrial production in **Brazil** increased just 0.3% in 2003. Consumer prices rose in the year to January by 6.2% in **Colombia**, and by 4.2% in **Mexico**.

Malaysia's industrial production grew by 13.3% in the year to December.

In **South Africa**, however, industrial production fell by 1.4% during the same period.

Russia's trade surplus rose to $60 billion in 2003, up from $46 billion in 2002, thanks in part to booming oil sales.

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Country risk

Feb 12th 2004
From The Economist print edition

According to the Economist Intelligence Unit (a sister firm of *The Economist*), Iraq is a riskier destination for foreign investment than any of the emerging markets regularly tracked on this page. The EIU's country-risk ratings, which take account of 77 indicators of political stability and other measures of credit quality, show that Brazil has become less risky in the past year, thanks in part to better-than-expected economic policies. However Brazil's heavily indebted neighbour, Argentina, remains almost as risky as Iraq. Singapore and Hong Kong, by contrast, continue to be the safest places for foreign investment.

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Economy

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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.9	Q4	+ 7.2	Jan	+ 3.2	Dec	+26.6	Jan	+35.4	2002	403.3	Dec
Hong Kong	+ 4.0	Q3	– 9.2	Q3	– 1.9	Dec	– 8.6	Dec	+17.0	Q3	123.6	Jan
India	+ 8.4	Q3	+ 7.4	Nov	+ 3.7	Dec	–14.8	Dec	+ 2.3	Q3	96.6	Dec
Indonesia	+ 3.9	Q3	+ 4.7	Jul	+ 4.8	Jan	+28.5	Dec	+ 8.1	Q2	35.0	Dec
Malaysia	+ 3.5	Q3	+13.3	Dec	+ 1.2	Dec	+19.6	Dec	+11.9	Q3	43.9	Dec
Philippines	+ 4.5	Q4	– 8.0	Nov	+ 3.4	Jan	– 1.7	Nov	+ 3.1	Oct	12.9	Jan
Singapore	+ 3.7	Q4	+ 0.3	Dec	+ 0.7	Dec	+16.2	Dec	+25.6	Q3	98.6	Jan
South Korea	+ 2.3	Q3	+10.4	Dec	+ 3.4	Jan	+18.8	Jan	+ 9.4	Nov	156.7	Jan
Taiwan	+ 4.2	Q3	+12.4	Dec	nil	Jan	+17.7	Jan	+28.8	Q3	214.9	Jan
Thailand	+ 6.5	Q3	+15.7	Dec	+ 1.2	Jan	+ 4.2	Dec	+ 8.0	Dec	41.1	Dec
Argentina	+ 9.8	Q3	+13.0	Nov	+ 2.7	Jan	+15.5	Dec	+ 8.9	Q3	14.7	Jan
Brazil	– 1.5	Q3	+ 2.9	Dec	+ 9.3	Dec	+25.3	Jan	+ 4.1	Dec	49.3	Dec
Chile	+ 3.0	Q3	+ 1.2	Dec	+ 0.8	Jan	+ 3.1	Jan	– 0.3	Q3	15.9	Dec
Colombia	+ 4.0	Q3	+ 4.9	Nov	+ 6.2	Jan	nil	Nov	– 1.6	Q3	11.1	Jan
Mexico	+ 0.4	Q3	– 0.3	Nov	+ 4.2	Jan	– 5.6	Dec	–10.5	Q3	59.0	Dec
Peru	+ 0.9	Nov	+ 0.8	Nov	+ 2.8	Jan	+ 0.6	Nov	– 1.2	Q3	9.8	Jan
Venezuela	– 7.1	Q3	– 4.8	Oct	+26.6	Jan	+14.0	Q3	+ 8.9	Q3	16.0	Dec
Egypt	+ 3.1	2003†	+ 2.6	2003†	+ 5.1	Nov	– 6.0	Jul	+ 3.3	Q3	13.9	Nov
Israel	+ 2.8	Q3	+ 3.0	Nov	– 1.9	Dec	– 6.1	Jan	– 0.2	Q3	25.9	Jan
South Africa	+ 1.6	Q3	– 1.4	Dec	+ 0.3	Dec	+ 2.1	Dec	– 1.3	Q3	6.5	Dec
Turkey	+ 4.8	Q3	+21.1	Dec	+16.2	Jan	–20.4	Nov	– 5.5	Nov	33.6	Dec
Czech Republic	+ 3.4	Q3	+ 4.8	Nov	+ 2.3	Jan	– 2.6	Dec	– 7.8	Q3	26.6	Jan
Hungary	+ 2.9	Q3	+ 7.5	Dec	+ 5.7	Dec	– 3.9	Dec	– 5.2	Dec	13.2	Jan
Poland	+ 3.9	Q3	+13.9	Dec	+ 1.7	Dec	– 9.7	Dec	– 3.2	Dec	32.6	Dec
Russia	+ 5.7	Q3	+ 7.9	Dec	+11.4	Jan	+60.0	Dec	+39.1	Q4	80.2	Jan
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 4.6	Q3	+ 9.5	Dec	+ 1.1	Dec	– 1.9	Nov	– 1.5	Q3	1.1	Nov
Latvia	+ 7.3	Q3	+ 1.0	Nov	+ 3.9	Jan	– 2.0	Nov	– 0.9	Nov	1.4	Nov
Lithuania	+10.6	Q4	na		– 1.3	Dec	– 2.4	Nov	– 1.1	Q3	3.0	Nov
Slovakia	+ 4.2	Q3	+ 4.1	Nov	+ 9.2	Dec	– 0.6	Nov	– 0.8	Sep	10.9	Nov
Slovenia	+ 2.3	Q3	+ 3.6	Dec	+ 4.6	Dec	– 0.8	Dec‡	nil	Nov	8.0	Oct
Pakistan	+ 5.1	2003†	+ 9.9	Aug	+ 5.2	Jan	– 1.4	Jan	+ 3.8	Q3	11.0	Dec
Saudi Arabia	+ 1.0	2002	na		– 0.9	Sep	+41.8	2002	+11.9	2002	24.5	Nov

*Excluding gold, except Sinagpore; IMF definition. †Year ending June. ‡New series

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

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	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Feb 11th		Dec 31st 2002	
	Feb 11th	year ago	Feb 11th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	15.5	na	1,758.5	−0.4	+ 23.9	+ 23.9
Hong Kong	7.77	7.80	14.5	0.09	13,524.8	+3.3	+ 45.1	+ 45.6
India	45.2	47.9	84.4	4.33	5,949.8	+3.4	+ 76.2	+ 86.9
Indonesia	8,415	8,965	15,715	8.18	769.8	+5.4	+ 81.2	+ 92.7
Malaysia	3.80	3.80	7.10	3.03	818.2	+1.7	+ 26.6	+ 26.6
Philippines	55.9	53.9	104.4	8.31	1,477.0	+2.5	+ 45.0	+ 38.4
Singapore	1.67	1.76	3.12	0.75	1,868.5	+1.8	+ 39.3	+ 44.7
South Korea	1,161	1,199	2,167	4.11	876.3	+4.9	+ 39.6	+ 42.7
Taiwan	33.1	34.7	61.8	1.10	6,454.4	+3.4	+ 45.0	+ 52.3
Thailand	38.9	43.0	72.7	1.33	753.2	+4.9	+111.3	+133.9
Argentina	2.94	3.08	5.50	3.50	1,029.9	−9.2	+ 96.2	+124.3
Brazil	2.92	3.60	5.45	16.26	23,197.0	+7.0	+105.9	+149.8
Chile	583	747	1,089	1.80	7,159.8	+1.1	+ 42.6	+ 76.1
Colombia	2,736	2,961	5,109	8.01	2,933.4	+5.0	+ 82.3	+ 91.1
Mexico	11.0	11.0	20.6	5.59	9,875.3	+2.1	+ 61.2	+ 52.7
Peru	3.49	3.48	6.51	2.50	2,785.0	+2.9	+100.1	+101.7
Venezuela	2,988§	1,922	5,580	na	28,120.4	−0.9	+250.8	+ 62.8
Egypt	6.18	5.50	11.54	6.87	13,855.5	+3.3	+157.9	+ 93.2
Israel	4.48	4.87	8.37	1.26	568.7	+4.4	+ 71.1	+ 81.2
South Africa	6.87	8.40	12.8	8.10	10,828.7	+0.7	+ 16.7	+ 45.8
Turkey	1,331,000	1,652,500	2,485,643	21.00	18,000.3	+4.3	+ 73.6	+116.5
Czech Republic	25.7	29.5	48.0	2.06	741.4	+4.5	+ 60.9	+ 88.3
Hungary	207	228	387	12.72	9,909.4	−1.0	+ 27.1	+ 37.9
Poland	3.82	3.86	7.13	5.28	23,259.5	+5.0	+ 61.9	+ 62.6
Russia	28.5	31.6	53.3	14.00	626.7‡	+0.5	+ 55.8	+ 74.5
EMF (MSCI)*	1.00	1.00	1.87	na	472.1	+3.6	+ 61.6	+ 61.6
EMBI+†	1.00	1.00	1.87	na	298.1	+0.8	+ 30.2	+ 30.2

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms. § Floating exchange rate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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